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M. QURESHI'S  
PRESIDENTIAL CHRON

February, -1988



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## OFFICE MEMORANDUM

DATE February 29, 1988

TO Mr. Barber B. Conable

FROM Moeen A. Qureshi *MQ*

EXTENSION 73665

SUBJECT Operational Strategy in the Heavily Indebted Countries

1. Attached is a draft paper for the Board on the Bank's strategy in the highly indebted countries. This paper has been promised to the Board and is scheduled for distribution on March 8th, one week in advance of the discussion of your report to the Development Committee which will refer to some of the findings and conclusions in this paper.
2. The Policy Committee should discuss the paper if possible this week.
3. The paper follows the general line discussed by the Policy Committee at the time they reviewed the report of the Debt Task Force and has the same structure and conclusions as the draft statement to the Board on this subject which was discussed at the senior management retreat. Given the time pressure in preparing this draft and in revising it over the weekend, not all of the points made by Senior Management Council members are fully reflected in it.
4. An earlier version of the paper was circulated to selected managers in PPR, Legal and Finance, as well as within the Operations Complex. The attached draft has attempted to incorporate whatever comments could be provided on very short notice.
5. The description of the Bank's operational strategy includes a good deal of first-time disclosure to the Board as to the principles that we are following in our catalytic role vis-a-vis other sources of finance. It also makes clear that we intend to play a forcible role in securing adequate funding of countries' adjustment programs and--as the Policy Committee discussed--are prepared to use our credit enhancement powers on a selective, case-by-case basis to catalyze not only new money agreements but also debt conversions/reductions.
6. I believe that we have struck the right balance between more assertive leadership by the Bank and prudent management of our role in the debt strategy.
7. A slightly expanded introduction is being drafted to include a summary of the key points in the paper, particularly with respect to the Bank's catalytic role. We are not fully happy with the wording of certain sections, particularly that on debt reduction and the conclusion. We will circulate revised versions of these sections prior to the Policy Committee decision. We will also be asking separately for further review and comments from PPR, Legal and Finance.

cc: Members of the Policy Committee  
Regional Vice Presidents

WORLD BANK OPERATIONAL STRATEGY IN THE  
HEAVILY INDEBTED MIDDLE INCOME COUNTRIES

A. INTRODUCTION

1. 1987 was a difficult year for the international debt strategy. It was marked by significant protracted arrears, notably in Brazil, Cote d'Ivoire and Ecuador. Commercial banks stepped up their levels of provisioning, dramatically so in the case of U.S., Canadian and British banks, and many individual banks exited from the debt restructuring and concerted new money process, either by selling their loans into a depressed secondary market or simply refusing to participate in concerted syndications. Even countries with good adjustment programs and little or no requests for net new money from the commercial banks had difficulty mobilizing refinancing packages, and there were generally long delays in obtaining commercial bank commitments. Following the dislocations in the financial markets in October, growth projections for the industrial countries were revised downwards. Growth in the heavily indebted countries themselves during 1987 was uneven and generally lower than necessary to make significant headway in improving their creditworthiness indicators.

2. These developments pose new challenges for the Bank's own efforts to assist the heavily indebted countries. The Bank occupies a central role in the debt strategy. It is the single largest source of new financing for these countries and it is the principal international institution with the capacity to help them formulate and implement medium-term, growth oriented adjustment strategies at both the sectoral and economy-wide levels. During 1987--and especially since the reorganization--the Bank has moved aggressively to strengthen its country assistance strategies in the heavily indebted countries. Operational plans call for increased commitments and disbursements under more comprehensive lending programs involving a major share--in some countries more than half--of fast-disbursing adjustment lending operations, integrated with and supported by financing of new investment.

3. Since at least 1985, the international debt strategy has been geared around a restoration of rapid growth in the heavily indebted countries, which in turn depends not only on policy reforms in the countries themselves but also on open and growing markets in the industrial countries and a level of external financial relief that, together with increased domestic resource mobilization, is sufficient to restore domestic investment to necessary minimum levels. The erosion of prospects for growth in the industrial countries in 1988--now down to 2 to 2-1/2 percent--and the difficulties experienced in marshalling additional financing cast a dark shadow over the prospects for the heavily indebted countries to achieve the 4 to 5% growth that is the minimum necessary on average for the debt strategy to succeed. And, it raises questions about the probability for success of the Bank's own country assistance strategies.

4. This memorandum provides an update on the Bank's operational strategy in the heavily indebted middle income countries. The challenge facing the Bank in the present environment is to find a way of providing stronger leadership in the debt workout process. In essence, this means a strengthening of the policy dialogue with the borrowing countries, a broadening and deepening of country assistance strategies and lending programs, and an expansion of the Bank's catalytic role not only in the new money process but also in fostering market-oriented debt reductions.

5. The discussion in the memorandum is organized as follows:

Section B summarizes the Bank's assistance strategy in the heavily indebted countries.

Section C sets out the most recent assessment of prospects for raising growth in these countries to the necessary 4 to 5% level and summarizes the financing required to achieve this growth.

Section D examines the prospects for securing the required financing from the various sources and describes the reasons why it is likely to prove very difficult to secure the degree of financial relief that is needed exclusively through the conventional concerted new money process.

Section E discusses the ways in which the Bank may be able to facilitate both the continuation of the new money process, and where a consensus among creditors exists that other measures should be pursued, the ways in which it can help catalyze debt conversions and other forms of financial relief.

The balance of this introduction provides a brief overview of the debt strategy to date and the adjustment task faced by the heavily indebted countries.

The Immediate Response: 1982-84

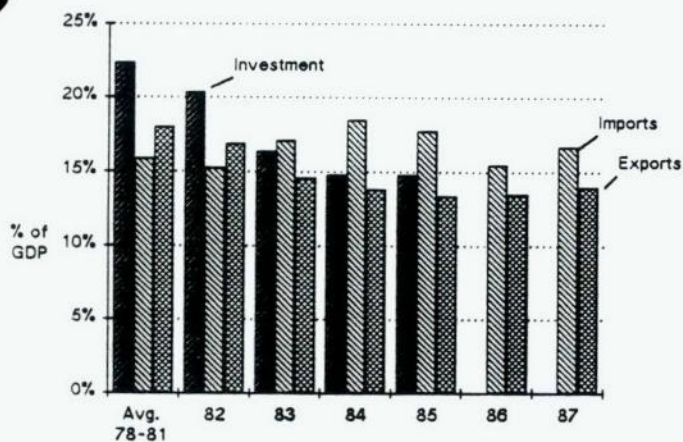
6. The international community's approach to the debt crisis has thus far been worked out in two stages. During the first stage, extending from 1982 through 1984, priority attention was necessarily given to the adjustment of debtor countries' balance of payments to the sharply decreased availability of external financing. Despite the increased resources and policy advice provided by official lenders, including the World Bank's Special Action Program, and the efforts of the Fund and others to encourage continued commercial bank involvement, debtor countries had little choice but to invoke a drastic reduction of domestic absorption. In the short term, this was necessarily achieved largely through substantial cutbacks of both public and private investment and of imports. For the heavily indebted middle income countries as a whole, investment was cut from 22.4% of GDP in 1979-81 to 20.4% in 1982 and to 14.8% in 1984-85. Imports were reduced from 18.0% to 16.9% to 13.8% of GDP over the same periods.

7. These stabilization efforts resulted in a remarkable improvement of debtor country trade and current account balances. For the heavily indebted middle income countries as a group, the trade balance moved from a deficit equivalent to 1.5% of GDP in 1982 to a surplus of 4.7% of GDP in 1984, a turnaround in absolute terms of \$41 billion. The current account balance, over the same period, went from a deficit of 5.9% of GDP to a surplus of 0.1% (see Chart 1 below). These improvements avoided the initially feared threat to the international financial system of large-scale default and permitted the continued flow of normal trade credit (albeit in reduced amounts) and the gradual strengthening of commercial bank balance sheets. To achieve a long-term adjustment to the changes that had occurred in the international economy, however, and thus to provide the basis for a sustainable resumption of growth and development, stabilization in the debtor countries would have to be supplemented by important reforms in attitudes, policies, and institutions, resulting in more efficient resource use, improved macroeconomic management, and greater attention to social and environmental concerns.

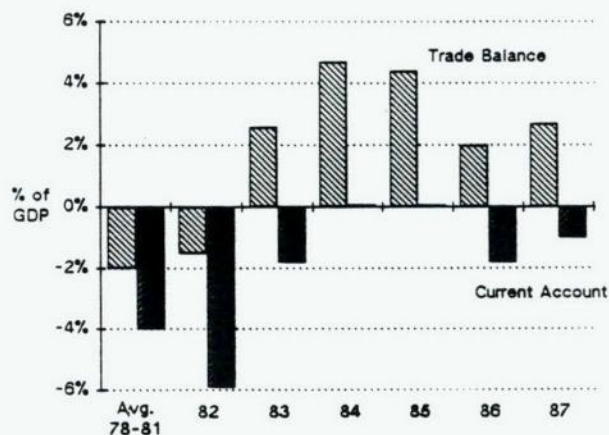
Chart 1

Effect of Reduced Imports and Investments on Trade and Current Account Balances

A. Investments, Imports and Exports



B. Trade and Current Account Balances



8. In some heavily indebted countries--e.g., South Korea and Turkey--the need for structural adjustment was recognized and acted upon quickly, and these countries successfully resumed growth with only a brief interruption. The immediate impact in most cases, however, was prolonged recession, GDP for the group falling 0.6% in 1982 and 2.9% in 1983. With GDP and exports growing only slowly or not at all, the countries' debt service indicators continued to deteriorate, despite the reduction of domestic absorption, and the outlook for the overall debt strategy appeared increasingly gloomy.

Adjustment with Growth: 1985-present

9. The Baker initiative, in September 1985, synthesized the growing perception that the maintenance of external debt service through the contraction of domestic investment and consumption was unsustainable, and that creditworthiness could only be permanently restored through the growth of country output and exports. The debt strategy since 1985 has thus relied on three-pronged approach: vigorous structural adjustment efforts by the borrower countries, increased financial and technical support by the international financial institutions, and continued net financial flows from the private commercial banks. Also implicit in the strategy were growing and open markets in the industrial (creditor) countries for the exports of the debtor countries.

10. Despite this shift in emphasis, country experience since 1985 has been mixed. For the group of heavily indebted middle income countries as a whole, per capita GDP grew at an average annual rate of 1.0% in 1985-87, compared to a decline of 2.8% per year during 1982-84. Relatively high growth rates have been achieved in the last three years by countries, such as Chile and Uruguay, which have made and sustained strong adjustment efforts. High but unsustainable growth was also achieved, however, by Brazil and Peru, which have not yet taken the needed adjustment measures. On the other hand, disappointing results in terms of restored growth have been experienced by countries like Mexico, Bolivia, and Nigeria, despite important adjustment efforts, because of varying combinations of inconsistencies in their adjustment programs, a difficult external environment, and the overriding weight of their debt burdens. Some countries, such as Cote d'Ivoire, Morocco, and Ecuador have seen early strong growth responses slow suddenly in the face of new external shocks and/or the political and social difficulties of sustaining the adjustment effort.

11. The ratio of debt to GNP for the group of heavily indebted middle income countries as a whole rose from 33.0% in 1982 and 48.3% in 1984 to 54.7% in 1986, before subsiding slightly to 53.7% in 1987. The ratio of debt to exports rose from 184% in 1982 to 228% in 1984 and to 308% in 1986, before falling to 294% in 1987. Experience varied widely within the group, however, reflecting differences in economic performance as well as in the timing, magnitude, and impact of currency valuation adjustments. The debt service ratio for the group was virtually unchanged from 1984 to 1985, increased in 1986 before falling 3.5 percentage points in 1987, reflecting both debt rescheduling and falling interest rates. Experience again varied widely within the group. The interest to exports ratio also improved in 1987 for the group as a whole--falling by nearly one-fifth, due not only to higher exports and lower interest rates but also in the case of some countries significant arrears. [These numbers will be checked for consistency with PPR paper on capital flows.] Table 1 below shows the growth in GDP and the key debt ratios for the heavily indebted countries.

Table 1

		GDP Growth and Key Debt Data in 17 Heavily Indebted Countries					
	Avg. 1978-81	1982	1983	1984	1985	1986	1987
GDP Growth (%)	4.3	-0.6	-2.9	2.3	3.0	3.1	2.5
Net Flows (\$bn)	31.5	34.6	21.6	15.6	6.4	4.8	13.0
Interest (\$bn)	17.2	30.8	29.0	33.1	32.5	30.1	29.2
Key Ratios (%):							
Debt to Exports	137.8	184.0	234.3	227.8	245.4	308.1	294.2
Debt Service to Exports	29.5	37.4	33.7	32.5	32.8	35.9	32.2
Net flows to GNP	4.0	4.1	3.0	2.1	0.8	0.6	1.6
Interest to GNP	2.2	3.7	4.0	4.4	4.3	3.9	3.6

12. Perhaps the most significant achievement of the debt strategy thus far has been the abatement of the risks to the international financial system. Commercial banks have significantly improved their capital ratios through major increases in loan provisions and/or shareholders equity and through containment of (or reductions in) exposure to developing countries. The accelerating "exit" of banks from the concerted new money process in 1987 which complicated the financing problems of the heavily indebted countries, reflects the increasing ability of many commercial banks to "put the debt crisis behind them."

13. Nonetheless, the results of the debt strategy thus far have not met expectations, particularly from the countries' perspective. Growth rates in most countries remain unsatisfactory, and the restoration of normal borrower-creditor relations remains an elusive long-term objective. Part of the problem lies with the debtor countries themselves and the failure in many cases to undertake the necessary policy reforms. While most governments in the heavily indebted middle income countries have become convinced of the need for fundamental policy reforms, political resistance and continued external shocks, as well as the technical difficulties inherent to such reforms, have made the needed measures difficult to introduce and to sustain. At the same time, financial flows, particularly from the private commercial banks, have fallen short of the amounts called for under the Baker initiative and necessary to support the adjustment effort. Finally, continued high real interest rates and, in many cases, further deterioration in commodity prices and terms of trade have necessitated a progressively stronger adjustment effort in countries that had already introduced courageous programs.



B. COUNTRY ASSISTANCE STRATEGY

14. Broadly speaking, the Bank's assistance strategy in the heavily indebted countries calls for:

- increased financial support for structural adjustment by sharply expanding the resources made available to these countries, often in the form of fast-disbursing, policy-based operations;
- intensified policy dialogue with member governments toward the identification of needed structural changes and agreement on the required policy reforms;
- sustained investment financing, refocussed as necessary on rehabilitation and restructuring of projects, enterprises and investment programs as well as expansion of productive capacity;
- continued efforts to alleviate poverty, including measures to cushion the impact of adjustment on the poorest groups; and
- increased assistance in mobilizing financial support from commercial and official lenders.

The rationale for this assistance strategy lies in the fact that the resumption of growth in the heavily indebted middle income countries is an essential condition for their return to creditworthiness, and that the resumption of growth depends critically on both domestic policy reforms and structural change and on the adequacy of external finance in the adjustment period. This approach also reflects the Bank's comparative advantage in the international system. Because of its several decades of accumulated development experience and its own financial strength and the backing of its member governments, the Bank's most important contribution to the debt strategy lies in helping its borrowers design and finance sustainable adjustment programs. This comparative advantage (in combination with that of the Fund's) is also the dominant consideration in the Bank's efforts to mobilize the needed resources of other lenders, and explains why the Bank's strategic emphasis is on a recovery of growth in the heavily indebted countries as the primary vehicle for restoring creditworthiness rather than widespread use of official guarantees on debt restructuring facilities.

15. This strategy also reflects a conviction that the major difficulties faced by heavily indebted middle income countries on their return to a growth path are not amenable to cyclical or relatively short-term solutions. The structural constraints to growth in a large majority of these countries are the results of multiple and prolonged policy shortcomings, including distorted price incentives to domestic production and savings, excessive regulation of economic activity, excessive protection of domestic production, and inefficient, and sometimes wasteful, use of domestic and foreign resources by the public sector and state-owned enterprises, in particular. The Bank thus emphasizes the need for medium-term reform programs that go to the heart of these difficulties and help to

resolve them. Most importantly, financial support depends also on the adequacy of the overall macroeconomic policy framework and on evaluation of the adequacy of sectoral policies and programs and the relative priorities of the sectors within the general strategy being pursued.

16. The Bank's assistance is, of course, tailored to the specific country circumstances and approached on a case-by-case basis. The most important criteria to differentiate the Bank's assistance strategy are again country policy performance and the sources of the present difficulties. As noted in the introduction, there is considerable variation among the heavily indebted countries with respect to both of these criteria.<sup>1</sup> Nonetheless, specific country programs share the common characteristics of being:

- medium-term in perspective;
- made up of a series of operations, each of which is intended to address specific adjustment and investment requirements;
- integrated with respect to the objectives and sequence of individual operations within an overall macroeconomic framework and assistance strategy.

17. Annex A provides a brief overview of how the Bank's lending to the heavily indebted middle income countries has evolved since 1982. Total lending rose by 52%, from \$4.4 billion in FY82 to \$6.7 billion in FY87. Within this total, the share of adjustment lending rose from an average of 20% in FY82-84 to nearly 30% in FY85-87. For individual countries, the share of adjustment support was even higher, ranging up to 100% in some cases (see below).

18. Country assistance plans call for a further sharp expansion of lending to these countries. However, given the policy-dependent nature of the Bank's lending in the heavily indebted countries, lending plans are also subject to a substantial degree of uncertainty. The range of possible lending volume to this group of countries is large [, between \$30-50 billion or more over the next five years, compared to actual lending in FY83-87 of \$28 billion]. In almost all countries, assistance strategy calls for at least a core lending program for essential, high-return projects. Plans for higher volumes of lending are predicated on improved policies and stronger adjustment programs, with a major proportion of the program composed of quick-disbursing, policy-based operations. Roughly 35% of total lending in these countries could take the form of adjustment support operations.

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<sup>1/</sup> Even under normal circumstances, of course, the size and composition of the Bank's lending program in a particular country will depend, in part, on the quality of the country's policies and its openness to Bank policy advice. This relationship is necessarily amplified, when, as with the present set of countries, there are questions of creditworthiness and the need for the Bank to play a major role in helping to mobilize the support of other lenders.

19. The factors determining the degree of Bank support for particular countries are varied and often quite country-specific. One important consideration is the strength of the overall adjustment effort. In recent years, the Bank has provided a high degree of support to countries such as Chile, Colombia, Uruguay, and Mexico which have been making strong and sustained adjustment efforts over a medium-term timeframe. In Mexico, for example, the Bank was able to structure a series of adjustment support operations for commitment during the FY86-88 period that also became the basis for the financing package from other creditors, particularly commercial banks in 1986-87. In contrast, the Bank's ability to fully support other major borrowers, such as Brazil and Argentina, has been hampered by wavering adjustment efforts and lack of a clear, medium-term adjustment strategy.

20. Sometimes the main issues are related to macro-economic policy distortions (monetary, fiscal, exchange rate policy), while micro-economic incentives and efficiency are adequate. In other countries, less than satisfactory macro-economic policy performance is often combined with various degrees of micro-economic distortions and inefficiencies that might require considerably more effort, time and political will to overcome. Supported reform measures may involve primarily the establishment of a better policy environment for the private sector, e.g., through trade and tariff reforms or more far-reaching restructuring of overextended and poorly managed public enterprises. Such measures are [generally] combined with closer scrutiny of the public investment program and of public expenditures in general.

21. The Bank's assistance reflects both government priorities and readiness to undertake policy reforms and the Bank's own assessment of priorities. In almost all countries, assistance is provided through appropriately focussed economic and sector work. In some countries, e.g. Turkey, advisory and financial assistance have been packaged in a number of comprehensive structural adjustment loans. In other countries, assistance has been provided through a series of sectoral adjustment loans for more limited scope, e.g. the trade policy, industrial and agricultural sector loans in Mexico.

22. While the range of lending instruments available is quite broad, as a practical matter they fall into six major categories, as indicated in Table 2 below. Trade policy measures have been the most frequently supported policy reforms, reflecting not only the widespread problems in this area, but also the critical importance of strengthened international competitiveness to the restoration of long-term creditworthiness. The flexibility to lend in support of any of the major sectors is a key part of the Bank's comparative advantage and enables it to focus directly on measures that increase efficiency, strengthen domestic resource mobilization and/or increase net exports. Indeed, the heart of the Bank's approach to growth-oriented structural adjustment is the careful sequencing of specific adjustment measure within an overall medium-term macroeconomic framework. The replacement of quantitative import restrictions by tariffs has been a key feature of these programs as they improve both fiscal revenues and the transparency of incentives.

Table 2: Distribution of World Bank Commitments  
17 Heavily Indebted Countries, FY82-87 a/  
 ( % )

	FY83	FY84	FY85	FY86	FY87
<u>Structural Adjustment Lending</u>	13.7	5.7	3.0	8.2	4.9
<u>Sectoral Adjustment Lending</u>					
Trade Sector	8.7	11.4	6.6	3.3	22.2
Financial Sector	-	6.9	-	-	-
Agricultural Sector	-	-	6.8	19.8	-
Industrial Sector	-	7.7	-	-	-
Public Enterprises	-	-	-	-	3.9
Other	-	-	-	3.4	5.2
Total	8.7	26.0	13.3	26.5	31.3
<u>Investment Lending</u>	77.6	68.3	83.7	65.3	63.8
TOTAL COMMITMENTS	100.0	100.0	100.0	100.0	100.0

a/ Includes IDA lending to Bolivia.

23. Table 3 below shows how the mix between adjustment and project lending varies among heavily indebted countries. In countries with high policy effort, the share of adjustment lending has--not surprisingly--been high, e.g. in Bolivia, Chile and Cote d'Ivoire. The share is also affected, however, by country size and project lending opportunities. In Mexico, the share of adjustment lending has been moderate (40%) despite a considerable level of policy effort, in part because the Bank's limited resources, relative to Mexico's requirements, make it possible to continue project lending on a substantial scale and to "leverage" adjustment operations with money from other lenders.

24. The share of adjustment lending has also been higher in some of the smaller countries, e.g. Chile, Colombia, Uruguay, where the Bank's portfolio constraints have permitted shouldering a larger part of the financial burden,<sup>2</sup> and public investment programs have been severely curtailed. For some countries, e.g. Costa Rica, bilateral aid was available in rather substantial volumes, thus reducing the need for Bank lending. Lending to Bolivia is, of course, through IDA.

2/ Because these countries have for a variety of reasons relied less on concerted new financing from commercial banks, the Bank has paid particular attention to burden sharing issues (see Section E).

Table 3: Adjustment Lending as Share of Total Lending  
in 17 Heavily Indebted Countries, FY 86-88

<u>Total Lending per capita a/</u>	<u>No Adjustment Lending</u>	<u>20-50% Adjustment Lending</u>	<u>50-100% Adjustment Lending</u>
<u>Low</u>	Peru Yugoslavia	Nigeria Costa Rica	Philippines Venezuela
<u>Medium</u>		Brazil Colombia Mexico	Bolivia
<u>High</u>		Ecuador Jamaica Uruguay	Argentina Chile Cote d'Ivoire Morocco

a/ Low: \$0-10 p.a.; Medium: \$20-30 p.a.; High: \$20-30 p.a.

25. The ability of the Bank to encourage effective and far reaching adjustment measures through its adjustment lending is already apparent in a number of highly indebted middle income countries. For example, Mexico has made very considerable progress in the area of trade liberalization. Pervasive quantitative restrictions have by now been almost completely replaced by tariffs, while the previous high level of tariffs has been brought down from 100% two years ago to a maximum of 20% today (compared to a target of 35%), while exchange rate policy has been used actively to ensure adequate export incentives and a sustainable balance of payments. At the same time, five major parastatals are being restructured while some 600 smaller public enterprises have already been divested. Similarly, Morocco has introduced strong adjustment measures in the area of external trade incentives. The maximum tariff rate was cut from 200% to 45%, and quantitative restrictions have been reduced, albeit in a less far reaching manner. Nevertheless, effects are already visible: Morocco's market share in the EEC increased from 1.5% in 1983 to 1.9% in 1986, and manufacturing employment has increased by 5% per annum over the past few years.

26. The Chilean adjustment program also involved drastic changes in external trade policies. Quantitative restrictions have been phased out completely, and variable tariffs have been replaced by a uniform tariff that was reduced to 15% in 1985, compensated by appropriate exchange rate action. Despite a further deterioration in the terms of trade, Chile's trade surplus reached 6.5% of GDP in 1986, buoyed by strong non-copper export growth. Chile is among those countries that have most progress in re-establishing fiscal balance through appropriate expenditure and revenue adjustments and improved pricing policies of public enterprises. Public savings increased from 0.5% of GDP in 1984 to 4.4% in

1986, and consequently, gross domestic savings increased from 12.6% of GDP in 1984 to 18.4% in 1986 (implying a marginal savings rate averaging 90% in 1985/86). By contrast, in many highly indebted middle income countries, adjustment efforts are still insufficient in the area of public expenditure rationalization and public revenue mobilization.

#### Poverty Impact

27. Economic growth, the key to alleviating poverty in the long run, has particularly suffered in the heavily indebted countries. In many of these countries, per capita income and consumption have fallen considerably over the past five years and are for some countries back to levels that were already attained in the early 1960s. The human costs of the recession have been devastating. In Mexico, for example, where 700,000 teenagers reach working age every year, very few formal sector jobs have been created since 1981, and unemployment increased by 70% between 1981 and 1984.

28. Thus, it is important to promote adjustment with growth, and adjustment strategies that permit significant per capita consumption growth are not only more desirable, but essential. But the issue is not whether or not to adjust. The real choice is between prompt, orderly adjustment, and a delayed and chaotic one. Policy inaction can be more devastating to the poor than vigorous adjustment. This point is illustrated well by the case of Bolivia, where several years of policy drift resulted in hyperinflation and massive transfers from the poor to the rich through differential exchange rates.

29. Adjustment costs are usually of three types. First, efforts to correct internal and external economic imbalances usually (but not always) depress output, employment and consumption. Second, the changes in economic incentives occasioned by adjustment programs will cause a reallocation of resources between sectors and activities, benefitting some and penalizing others. Finally, some transitional costs arise because factors of production do not move instantaneously among alleviative uses in response to changed price signals.

30. Although none of these costs are borne exclusively by the poor, some of them inevitably will. Poverty groups in most countries tend to be the least protected by social safety nets. While no conclusive research is yet available, evidence suggests that wage earners in the urban formal sectors are often the most seriously affected group. Often, the rural poor are less affected by adjustment measures, and adjustment programs can thus have positive distributional effects, particularly in the poorest countries.

31. The Bank has placed increasing emphasis on protecting the poor during the adjustment process. For example, the Bank extended an Emergency Social Fund credit to Bolivia in FY87, which supports the first stage of the Government's Emergency Social Program. The Program includes both emergency relief through food distribution and vaccinations, and employment generation through road maintenance, small-scale irrigation and other productive projects. A recently proposed Agricultural Sector Loan for Mexico would support expansion of food coupon and milk programs as well as in Morocco and Education Sector Adjustment Loan has supported

reforms aimed at making education more cost-effective. It is also increasing the equity of education by devoting a larger share of resources to primary and lower secondary schooling--with a focus on schooling in rural areas. The Bank's activities to retarget public services toward the most vulnerable groups are being considered in Argentina, Colombia, Jamaica and Venezuela.

#### Collaboration with the Fund

32. Within this framework for Bank support of structural adjustment in the heavily indebted middle income countries, collaboration with the IMF has been of crucial importance. The need for close cooperation comes not only from the importance of meshing financial stabilization with growth policies, but also from the paramount role that overall external finance assumes in determining the success of the countries' policy reform strategies. At the same time, changes in the terms and maturities of outstanding commercial debt and of official export credits depend critically on country agreements with the Fund on macro-stabilization policies and objectives. But there is a still more fundamental reason for the maintenance of close links between Fund and Bank policy support to the heavily indebted middle income countries. The resumption of growth implies both the progressive reduction of external and internal disequilibrium and the maintenance of adequate incentives to domestic production. While the objectives of macro stabilization and output growth can sometimes be at odds in the short term, they are clearly dependent on one another when considered in a medium-term time frame. The compatibility of short- and medium-term policies is therefore essential to fostering balanced and lasting growth.

33. Finally, it is perhaps worth noting that the Bank's assistance strategy in the heavily indebted countries remains that of a development institution concerned with long-term development and poverty alleviation. The external financial problems of the heavily indebted countries represent a major interruption in their growth and have sharply reduced the resources available to them to tackle urgent economic and social development needs. In reorienting its lending programs and giving much higher priority to structural adjustment issues, the Bank is seeking to assist these countries in achieving as rapid a return to sustainable growth paths and restored creditworthiness as possible. The Bank's ability to do this is inextricably linked to the willingness and capacity of the governments themselves to adopt structural adjustment and also future development strategies that rely largely on gains in investment efficiency and domestic resource mobilization. Fortunately, many of the heavily indebted countries have already embraced the need for different development models than were pursued in the second half of the 1970s and early 1980s. This commitment to change underpins the Bank's assistance efforts. Its implementation is nonetheless difficult, which is the principal reason both for the reorientation of the Bank's lending program and the significant variability of lending among countries within this group and in aggregate.

C. GROWTH PROSPECTS AND FINANCING REQUIREMENTS

34. Since the inception of the international debt crisis, country projections made by Bank staff at different points of time have consistently concluded that almost all heavily indebted middle income countries could, under assumptions of feasible adjustment efforts on their own part, existing expectations regarding world economic parameters, and adequate new money flows from external lenders, resume satisfactory rates of economic growth, while gradually reducing their debt service burdens and restoring creditworthiness over time. This debt workout scenario has supported the Bank's strategy of increasing commitments and accelerating disbursements to these countries, in a context of increasing policy conditionality, and of urging other lenders to stay in the game, frequently in direct collaboration with the international financial institutions. Similar conclusions were reached by analysts elsewhere (notably the IMF) and provided the intellectual underpinning for the current international debt strategy.

35. In a few cases--e.g., Chile and Uruguay--the projections and the assumptions underlying them have thus far held up reasonably well. In most cases, however, reality has diverged significantly from the projections, and the countries involved have experienced continued economic stagnation and/or little improvement or even worsening of debt service burdens. The reasons for the failure of the earlier projections to be realized varies from country to country. In some--e.g., Cote d'Ivoire--the major factor may have been an unforeseen deterioration of terms of trade. In others--e.g., Brazil and Yugoslavia--the countries themselves have failed to take the needed stabilization and adjustment measures. Common to the countries as a group, particularly in the last two years, has been the inadequacy or uncertainty of external financing, particularly from the commercial banks.

36. In spite of this general impression of the strategy's failure, recent projections for most debtor countries reach essentially the same conclusion reported before--namely, that satisfactory growth and gradually improving creditworthiness are mutually achievable assuming reasonable adjustment policies, adequate external finance, and no major further deterioration in the world economy. While there are reasons to be both more optimistic and more pessimistic than before about the attainability of these projections and, hence, the viability of the strategy that has flowed from them, on balance the outlook appears less favorable.

37. On the one hand, in such countries as Chile, Uruguay and Turkey, sound adjustment policies have resulted in a resumption of growth and an increased capacity to service their external debts, and a number of other countries--e.g., Nigeria, Costa Rica, and Jamaica--have more recently undertaken serious adjustment efforts or have strengthened previous efforts. At the same time, there seems to be an increased appreciation among official creditors, including the Bank and Fund, of the longer time horizon required for debt workouts to succeed, as well as of the need for adjustment to be accompanied and supported by economic growth, and an increased willingness to adapt their own assistance activities accordingly. Some progress has also been made among private creditors in the evolution and acceptance of market-based mechanisms for orderly debt reduction.



38. On the negative side, however, the passage of time alone, and the growing perception of "adjustment fatigue" that accompanies it, has increased the vulnerability of the strategy to major disaffection on the part of both debtors and commercial creditors. The social and political tensions that are evident in a number of countries after several years of per capita income and consumption decline pose real constraints on the governments of debtor countries, regardless of whether or not the countries' own policies have heretofore been consistent with the need for adjustment. At the same time, the sharp cuts made in imports, investment and maintenance expenditures can be expected progressively to disrupt the supply responses expected from the rationalization of relative prices, making increasingly urgent the easing of present resource constraints to permit the recovery of investment. On the creditor side, however, it has become increasingly difficult to mobilize new money packages in support of country adjustment programs, even when these are endorsed and supported by the Fund, Bank, and bilateral lenders. The extent and likelihood of creditor and debtor disaffection is both reflected in, and is exacerbated by, the expanding calls for a global, debt-reducing approach. Also clouding the horizon are the continuing economic and financial imbalances among the major industrial nations, which create increased uncertainty for the future course of the world economy.

39. It is clear that progress toward an acceptable solution of the debt crisis requires a resumption of growth in per capita terms in the debtor countries, and that that requirement can only be met in a context of sound macroeconomic management and rational incentive policies in the debtor countries themselves. A sustained adjustment effort also requires some amelioration of the social costs of the economic stagnation of recent years as well as of the adjustments measures themselves. As noted above, however, these domestic efforts in the debtor countries must be accompanied by external financial resources to permit the simultaneous growth of consumption, investment, and imports. If such resources are not forthcoming, in one form or another, the debtor countries will face the choice of further compression of domestic demand or of either falling into arrears or even declaring a unilateral moratorium on their external debt service obligations. These latter options would have serious negative repercussions for the international economy and long-term costs to the debtor countries as well.

40. The ability of the heavily indebted countries to grow out from under their debt burdens also depends crucially on the growth of markets for their main export products, both actual and potential. Another factor, therefore, that has hampered progress under the debt strategy has been the disappointing growth of the industrial economies and the continued low historical real levels of most primary commodity prices. Contributing to the depression of basic food prices have been the heavy subsidies provided to industrial countries to their own relatively high cost producers. Protectionist measures, stimulated in part by the slow growth of the industrial economies continue to threaten the expansion of markets for the manufactured goods of the debtor countries. Meanwhile, real interest rates remain high, particularly when deflated by the prices of debtor country exports.

41. The immediate outlook for the world economy is not promising, and expectations have become somewhat more pessimistic in recent months. Current projections are for annual growth in the industrial countries of some 2-2.5% per year, a bare minimum environment for the rates of export growth needed by the debtor countries to meet their earnings requirements, assuming that such growth in the industrial countries will be sufficient to ward off any further increases in protectionist pressures. Success of the Uruguay Round of Multilateral Trade Negotiations can make an important contribution to the debt strategy by assuring the access of debtor country goods to the industrial countries' markets and reducing existing levels of protection and export subsidization. More vigorous growth, of course, would contribute importantly to the success of the debt strategy by increasing the demand for debtor country goods and stimulating a cyclical upturn in commodity prices.

42. The future course of real interest rates will also significantly affect the debt burdens of these countries and the resources available for developmental purposes--or, alternatively, the level of additional external financial support they will need. A 1% rise in LIBOR, for example, adds roughly \$3 billion to the annual interest bill of the heavily indebted countries. Reduction in interest rates and in the uncertainties that currently surround them (as well as those attached to industrial country exchange rates) will require a steady correction of the major trade and payments imbalances that still exist among the industrial countries.

43. The heavily indebted countries differ in their degree of vulnerability to changes in the external environment, and fall into two broad categories, according to the most recent projections. The first category consists of countries for which, assuming good policies and adequate external financing, the present workout strategy appears feasible across a broad range of assumptions about the external environment, either because of the fundamental strength and diversification of the economy or because of the relatively lesser severity of their present debt burden. An example of a country with a strong and diverse economy is Brazil, whose large and diversified economy has demonstrated an extraordinary ability over the past several decades to respond quickly and powerfully to changing economic incentives, when supported by rational and consistent macroeconomic management. In other countries, e.g. Yugoslavia, less than satisfactory macroeconomic policy performance is often combined with various degrees of microeconomic distortions and inefficiencies that might require considerably more effort, time and political will to overcome. Consequently, despite a relatively manageable debt level and a very high investment rate, the projected growth rate remains unsatisfactorily low.

44. The second category consists of countries for which the present strategy appears feasible, again assuming good policies and adequate external financing, but which are highly vulnerable to any deterioration in the external environment because of very large debt service burdens, low supply elasticities, and heavy dependence on one or a few commodity exports. Argentina is an example of the first kind of vulnerability: even under favorable assumptions about economic policies and the country's production and export response, creditworthiness indicators would only improve very slowly over the next decade, and the external accounts will

remain highly sensitive to any increases in the interest rate. Cote d'Ivoire will remain highly vulnerable to changes in its externally determined exchange rate and the world prices of coffee and cocoa. Chile, which has enjoyed exceptionally good economic policies and has exhibited a strong positive supply response, will nevertheless continue to transfer a high proportion of GDP in external interest payments over the next decade, thereby remaining vulnerable to higher interest rates as well as to any deterioration of world copper prices or to protectionist measures against its other exports.

45. In the case of one of the countries that was included in the original "Baker 15" and subsequently in the Bank's own list of 17 highly indebted countries, namely Bolivia, it is clear that the present debt strategy cannot lead to both resumed growth and restored creditworthiness simultaneously, regardless of the country's own efforts in that direction which have been substantial. In this case, only a combination of continued strong adjustment measures (which has been already undertaken), concessional assistance and debt alleviation can lead to a restoration of growth and eventual creditworthiness, a fact that is generally acknowledged by the international institutions, creditor governments and commercial banks.

46. Projections of financing requirements consistent with an average growth rate for the 17 heavily indebted countries of 4 to 5% are, of course, crucially dependent on the quality of the adjustment programs undertaken. As noted above, the most recent projections--and the Bank's individual country assistance strategies--are predicated on adoption of significant though realistic policy improvements in many countries (and sustained good policies in the others). They also assume relatively modest growth in OECD countries--2 to 2-1/2% over the next three years--and no major external shocks in the form of higher interest rates or oil prices. Under these assumptions, most countries in the group can achieve 4 to 5% GDP growth, with increases in per capita consumption of 1-2% per annum. The current account deficit for the group as a whole is projected to average \$14-15 billion over the next three years and to a decline thereafter but remain around \$10-12 billion. Projected deficits for individual countries cluster in the range of 1% to 4% of GDP. Thus, for some countries within the group, financing requirements are relatively modest, for others quite large, at least in relation to GDP.

47. The average annual current account deficit for these countries was about \$20 billion over the 1980-87 period and about \$7 billion in FY85-87. Whether or not higher growth is achieved in all countries in the group will thus depend heavily on the strength of individual adjustment programs and whether or not financing can be made available that is more than double that achieved over the last three years. Moreover, because the projections assume good policy performance by all countries, they may well understate the financing that could be sought by these countries, particularly from the private financial markets and particularly in 1988-89 before improved policies have begun to take effect.

48. For many countries in the group, a key economic management challenge is to break out of the "stop-go" policies that have characterized the 1980s thus far. Doing this is closely linked to being able to establish a medium-term framework for both policies and financing. The

financing question is thus not just a matter of annual amounts. It is also a matter of whether or not countries are likely to be able to secure needed financing on a sustained basis.

D. FINANCING PROSPECTS

49. How might an aggregate current account deficit on the order of \$14-15 billion annually be financed by this group of countries?

50. First of all, private direct investment flows to the heavily indebted countries have begun to recover in the past two years, due to higher growth, improved policies and an improved investment climate as well as the sometimes strong incentives provided by debt to equity conversion programs. At a minimum, it seems reasonable to expect that direct investment flows can increase to the \$3-5 billion level that was achieved in the early 1980s, if countries implement programs of structural adjustment that include improved incentives to the private sector, liberalization of trade and investment regimes, privatization, and financial market development/reform. Indeed, such reforms are part and parcel of the assistance objectives being pursued by the Bank, and thus implementation of the expanded levels of assistance currently being planned can be expected to have favorable effects on the flow of private equity capital as well. The same policy measures plus higher rates of growth and other specific steps to encourage capital repatriation should also facilitate a return of residents' holdings abroad, or at least reduce the capital outflow from these countries, which continues to be on the order of \$9 billion per year.

51. Net official transfers to the heavily-indebted countries have averaged \$1.4 billion annually and seem likely to be sustained at this level. The combination of direct investment and official transfers thus should be sufficient to cover about one-third of the projected deficit on current account, leaving about \$10 billion per year to be covered by net inflows of medium and long-term capital.

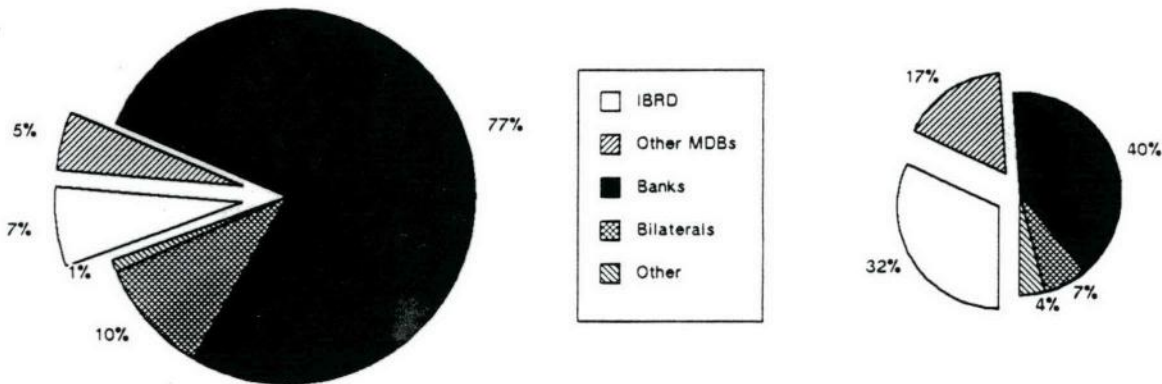
52. One aspect of medium and long-term financing is relatively easy to assess, namely the role of the the World Bank and the other MDBs. As Chart 2 below shows, the most significant change in the pattern of financing for these countries between the early-1980s and recent years has been the dramatic increase in the share of net flows (i.e., net disbursements) accounted for by the IBRD and the other MDBs, which reflects the equally dramatic drop in the volume of net flows from other sources. Over the period 1985-87, their share of net flows increased to 50% of total medium and long-term flows, compared with roughly 12% in 1980-82. In contrast, the relative shares of both bilateral creditors and commercial banks showed declines.

Chart 2

Share of MLT Net Flows from Key Lenders\*  
to 17 Heavily Indebted Countries

1980-82 Average: \$25.5 b.

1985-87 Average: \$8.7 b.



\* Excludes Flows from IMF

53. If adjustment programs and economic performance in fact develop as assumed in the country projections and Bank assistance strategies, net flows from the IBRD can be expected to fall in the range of \$3 to 4 billion annually over the next five years. A further \$1 billion in net flows is likely to be available to these countries from the other MDBs at a minimum.

54. The net flows from bilateral creditors (mainly the Export Credit Agencies) have been disappointing in recent years. New finance from this source dropped to an average of \$300 million a year in 1985-86 after averaging \$2.5 billion since 1980, reflecting in part the budgetary problems of the industrial countries, the difficult financial situations of many export credit agencies, and the decline in demand in the borrowing countries for imported capital goods and other imports. Preliminary estimates for 1987 show a pickup in net new lending from this source to around \$1 billion. While this is an encouraging indication, more net flows will need to come from these sources over the next few years, as well as further financial relief in the form of rescheduling and refinancing of interest.<sup>3</sup> The recent actions by Japan's EXIM Bank in this regard,

<sup>3/</sup> Some \$61 billion in debt relief was provided by Paris Club members to developing countries during 1983-87, compared to only \$19 billion in 1976-82.

to make available large amounts of untied funds, is the leading example of adaptation of export credit agencies' lending policies to the special circumstances of the heavily indebted countries.

55. Commercial banks have, of course, provided significant financial relief to the heavily-indebted countries since 1982 in the form of reschedulings of principal, reductions in spreads and fees, and concerted new money packages.<sup>4</sup> Net flows from banks have shrunk over this period, however, from an annual average of more than \$12 billion in 1983-84 to less than \$4 billion in 1985-87, notwithstanding the banking community's endorsement of the \$6-7 billion target put forward by Secretary Baker in Seoul--which was the equivalent of refinancing only about one-fourth of the interest due to banks. [A significant portion of the financing provided in 1987 was in the form of arrears.]

56. The experience of the past two years is itself a major reason for pessimism about the prospects of securing net flows from commercial banks of at least \$6-8 billion annually over the next 3 to 5 years. This outcome, however, is itself a reflection of a fundamental shift in commercial bank attitudes towards the debt strategy in recent years, which accelerated during 1987 and which stems from several underlying factors that are not likely to be easily reversed. These factors include increasing skepticism about the prospects for improved creditworthiness in the debtor countries within a realistic time frame. Bankers recognize that because of adverse elements in the world economy and policy slippages in several debtor countries, the process of restoring creditworthiness in the major debtor countries (as measured by debt indicators) will be long and uneven and that the probabilities of success have been reduced, in part by mounting domestic political difficulties in implementing reform programs. Such concerns have been further exacerbated by larger levels of interest arrears, some in the form of unilateral moratoria on debt service payments by major countries.

57. In addition, banks face intensified pressures, both regulatory and competitive, to strengthen their balance sheets. Independently of their situation regarding problem loans, there has been a trend among regulatory authorities in many of the industrial countries to adopt more conservative guidelines, and hence banks are being faced by stricter and comprehensive capital requirements. The effect of depressed secondary market prices for LDC loans has had major damaging effects on the share prices of major banks with large exposures and strengthened management determination to avoid further exposure increases if at all possible. Moreover, banks face the prospect of additional provisioning on both existing and new lending making participation in concerted new money packages expensive in terms of capital and at best marginally profitable at a time when banks confront intensified competition in non-LDC businesses.

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<sup>4/</sup> Since the inception of the debt crisis, commercial banks have restructured about \$300 billion in outstanding principal; they have assembled \$40 billion of new money packages and have arranged special short-term credit lines on the order of \$36 billion.

58. Moreover, divergent long-term business interests among commercial banks have re-emerged. The universal or "critical mass" participation in concerted lending that was the modus operandi in the early years of the debt crisis was made possible by banks' shared interest in protecting the international financial system and in buying time to reduce exposures in relation to capital. Except for the large international banks, this phase has now ended, and the underlying differences in exposure levels and business strategies are becoming important determinants of individual bank decisions on new money participations. Regional and small-exposure banks are, for example, redirecting their lending activity toward traditional domestic and trade financing. Even among the larger banks, there are differences in financial interests and objectives: those with multinational corporate clients--and, in some cases, with significant domestic banking operations in LDCs--can be expected to maintain direct interest in improving the liquidity of specific debtor countries, while other banks endeavor to leave the debt restructuring process, even at the cost of significant writedowns.

59. Finally, sustaining the concerted new money process will require adaptations and new approaches whose success is as yet uncertain. Restructuring agreements have had the effect of consolidating the vast majority of formerly independent debt obligations, and establishing uniform legal standing for all commercial creditors' claims. The sharing clauses inherent in these agreements make it possible, however, for some creditors to collect full interest due on their outstanding claims without contributing to the fresh money loans which provide the resources to pay that interest. This so-called "free-rider" or recalcitrant bank problem has become significantly greater as the new money participation rates fall.<sup>5</sup> As a result, the ability and willingness of the larger banks to continue to participate in the lending process is being subject to additional stress and possibly undermined. Exit instruments have thus far not been successful in sustaining the burden-sharing concept that was part of the original restructuring process for reasons that have perhaps less to do with the design of the instrument than the extremely complex legal issues surrounding any attempt to close off the "free rider" opportunity.

60. There are several important implications of these developments for the debt strategy. First, the number of banks participating in any new money packages is likely to narrow further as is the number of countries for which such financing can be arranged. Banks will likely concentrate any new exposure on countries where their financial and long-term business interests are substantial and where they feel the prospects for a successful workout are reasonably good. The smaller countries, particularly those with weak adjustment programs, will continue to find it difficult to arrange concerted support (though not necessarily continued restructurings of principal).

61. Second, banks will continue to explore ways of broadening the "menu" of instruments in the refinancing packages in order to strengthen the appeal of continued participation and trying to create ways of effectively distinguishing new lending from old. Hence, banks will continue to

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<sup>5/</sup> In Colombia, for instance, only 112 out of about 175 creditor banks participated in the January 1988 new money facility whose amount had to be reduced in order to complete the deal.

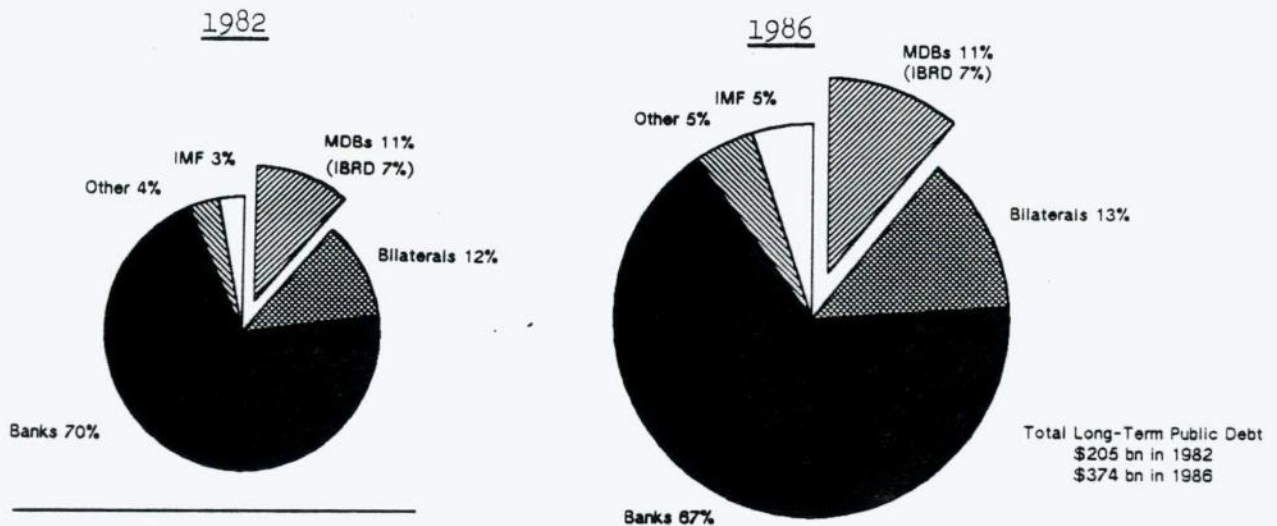
press for trade finance opportunities, onlending rights, debt to equity conversion provisions and new money bonds. And, banks will continue to seek project financing opportunities, particularly in conjunction with the World Bank and particularly with some type of formal World Bank drawdown and repayment linkage.<sup>6</sup>

62. Third, there will be considerable innovation in the area of exit instruments and other alternatives to concerted new money syndication as the way in which financial relief should be provided to troubled debtors. Such techniques could include transactions such as the Mexico bond exchange offer, interest capitalization, waivers of interest in lieu of new money contributions and discounted debt repurchases. Burden sharing has been an important principle for banks since 1982, as reflected in the rigorous use of relative 1982 exposure as the base for new money calls. The eroding cohesion among banks and major portfolio shifts since 1982 has undermined the universal approach based on 1982 exposure, which means that a more complex replacement is required in which "free riding" is excluded and all options for participation involve some cost.

63. Finally, and most importantly, it will be extremely difficult--perhaps impossible--to generate aggregate net flows for the heavily-indebted countries in the necessary amounts exclusively through the concerted new money approach. Despite the fact that banks continue to hold about two-thirds of total medium and long-term claims on the heavily-indebted countries (see Chart 3 below), pressures not to lend will grow, forcing selectivity and strong reluctance to accept exposure increases that in other circumstances might look quite reasonable (i.e., 2-3% on average, roughly equivalent to one-quarter to one-third of interest due).

Chart 3

Percentage Share of Foreign Claims on 17 Heavily-Indebted Countries



6/ The IIF, an industry group representing a large number of commercial banks worldwide, stresses in its June 1987 Report, Restoring Market Access, that "in countries desiring market reentry, bank lending must be switched from balance of payments financing to providing transactional and investment finance, particularly for the private sector."



All countries are thus likely to experience delays in assembling new money packages, constant downward pressure on the amounts to be obtained and continuation of the short-term approach that has characterized the concerted lending process since the beginning. Some countries, particularly smaller ones, may be faced with a choice between either reduced growth or further recourse to arrears to commercial lenders. Neither of these alternatives is particularly attractive. Both would represent important failures for the international debt strategy.

#### E. IBRD CATALYTIC ROLE IN RESOURCE MOBILIZATION

64. Failure by the heavily-indebted countries to secure adequate financial relief from other creditors on a negotiated basis creates difficult problems for the Bank. First of all, it means that the adjustment programs being supported by the Bank are underfunded, with reduced probabilities of success in restoring growth and development and a return to commercial creditworthiness. Second, the risk of a breakdown in the adjustment effort itself increases, particularly if a country slides into arrears and financial discipline is lost. Third, the quality of the Bank's own lending is jeopardized if excessive resources are drained from the economy to pay debt service and growth is insufficient to create the increased future debt servicing capacity that is the Bank's ultimate security. Fourth, the Bank's share of total debt service also rises over time, thus making it more difficult for the Bank to continue new lending without accepting higher risks due to a weakened capacity of the borrower to respect the preferred creditor status of the Bank. The Bank thus has a strong interest--as well as responsibility--in sustaining the collaborative approach that has characterized the international debt strategy thus far and in helping ensure that countries secure adequate financial relief from other creditors.

65. For these reasons, the Bank must inevitably play a strong catalytic role in helping the heavily-indebted countries mobilize financing from other sources, both official and private. The most important aspect of this role is the policy dialogue and direct lending that underpins the Bank's own assistance strategy to the country. As discussed in Section B, the Bank is intensifying its efforts to design and support medium-term adjustment programs in the heavily-indebted countries. Good programs are the sine qua non of being able to do anything in the way of catalyzing contributions from other lenders. Equally important, they are also the principal "selling point" that the Bank uses to press for support from other creditors.

66. The Bank has stepped up its efforts, both informal and through Consultative Groups, the Berne Union and the Paris Club, to inform bilateral lenders and credit insurers with respect to the adjustment programs, prospects, and financing needs of the heavily indebted countries and to mobilize resources in support of those programs as well as of high priority investment projects. The Export Credit Agencies (ECAs) in particular, increasingly refer to Bank public investment reviews and specific project evaluations in their own lending and credit insurance decisions. Bank and IFC assistance to financial sector reform and to

modification of the legal framework affecting foreign private claims and investments is also intended to facilitate the flow of export credit to private sector borrowers as well as encourage foreign direct investment. The Bank has also organized country-specific review meetings with the ECAs as a group for Mexico (in 1986) and Nigeria (in 1987). Such efforts will be continued, particularly where they can accelerate the restoration of insurance cover following adoption of more comprehensive adjustment programs.

67. The most complex aspect of the Bank's catalytic role, however, concerns the mobilization of resources from commercial banks. Given the changes within the banking community noted above, the likelihood is that the Bank will need to play a more extensive and diversified catalytic role in two areas: new money packages and facilitating other forms of financial relief, including debt reduction schemes. This section first briefly outlines the key principles that have governed the use of the Bank's catalytic role thus far and then takes up respectively new money operations and debt conversions/reductions.

#### Key Principles

68. Five principles have guided the Bank's catalytic role in the concerted lending process:<sup>7</sup>

- First, the financing plan for the debtor must be based on an adjustment program that is well designed, robust and realistically funded. Indeed, the Bank increasingly finds it necessary to make it a condition of its own lending that there be a viable workout program, including not only policy measures by the government but adequate financing from other creditors.
- Second, the efforts by the creditor banks in assembling the financing package must reflect an adequate level of burden sharing (any credit enhancement that the Bank provides on the commercial financing is not viewed as a substitute for adequate burden sharing by the commercial creditors).
- Third, the Bank's role must be one of facilitating a negotiated settlement, taking into account the respective constraints and flexibilities of both debtor and creditor.
- Fourth, in the provision of credit enhancement, the Bank must provide such support only in cases where its presence is seen as essential to bring the transaction to successful closure, and where the new financing required from commercial banks represents reasonable effort on their part in relation to existing exposure.
- Fifth, exposure associated with credit enhancement must be incorporated into Bank exposure guidelines applicable to the particular borrower.

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<sup>7/</sup> Some of these principles, particularly the first one, also apply with respect to Bank assistance in mobilizing funds from official creditors.

69. As noted above, the Bank stresses, first of all, the important signal that its own substantial commitments represent for other creditors of its confidence in the country's adjustment efforts and prospective economic performance. Beyond this, however, the Bank can and does play a much more specific catalytic role on a case-by-case basis, making use of two types of instruments: (1) formal linkages between its own lending and that of other lenders; and (2) specific credit enhancement of selective portions of the new money package. Use of either of these instruments depends entirely on the individual country situation and is in all cases worked out in negotiations between the government, the Bank and the commercial lenders.

70. Commercial lenders attach considerable importance to being formally associated with the Bank's operations, because of the general recognition that complex structural changes are required in order to re-establish growth and because commercial banks do not believe that they have the technical ability or quality of relationship with the borrower to be able to design and monitor comprehensive structural adjustment programs. Accordingly, they have sought--and the Bank has structured--specific linkages between IBRD and commercial bank financings. Such linkages are typically of four types:

- (i) Issuance of statements by the Borrower or the Bank: These statements pertain to various factors (for instance, the eligibility of the borrower for Bank loans or the net resource transfer from the Bank to the borrower) that would trigger actions (e.g., release of tranches, refinancings) under the commercial lending agreement.
- (ii) Information sharing and notification provisions: In certain parallel financings (in which the commercial loan is tied to a particular Bank loan), the Bank agrees to share non-confidential information on the status of the Bank loan, the borrower's compliance with conditionality and other factors related to the financing.
- (iii) Linkages of disbursements: In some cofinancings, the drawdown availability under the commercial loan are conditioned upon release of IBRD loan tranches.
- (iv) Optional Cross Default Clauses: Optional cross default clauses, inserted in the Bank's own loan agreement, allows for the Bank to declare default and exercise its remedies against the borrower in cases where the parallel commercial loan has been suspended, terminated, or accelerated.<sup>8</sup>

None of these linkages provide any direct credit enhancement. Yet, they are attractive to lenders (and have proved useful to gain approval for the transaction among the banks themselves) because they facilitate

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<sup>8/</sup> In addition, commercial lenders often include similar cross default clauses (with regard to IBRD loans) in their own agreements with the borrower.

coordination between commercial bank lending and the Bank's own lending and because they provide the commercial lenders with explicit assurances that their lending will be supporting a well-defined adjustment program.

71. Apart from formal linkages, the Bank can play a catalytic role by providing specific credit enhancement on specific portions of the new money package. Credit enhancement can be provided either through partial guarantees on a financing or by taking a direct participation in a syndicated loan with formal linkages to commercial lenders.<sup>9</sup> As a guarantor, the Bank's role is to make certain payments if the borrower fails to do so. As a direct participant in a commercial loan, the Bank agrees to be treated, for most purposes, exactly like the commercial banks that are its partners in the loan. Thus, it has similar rights and obligations as the commercial lenders, and, in particular, accepts the pro-rata sharing provisions that ensure that no lender is placed in a more favorable position with regard to loan recovery than its co-lenders.

72. The risk management consequences for the Bank under the two alternatives are different and their usage reflects the Bank's strategy in individual instances. In the direct participation, the co-lenders are afforded an equal status with the Bank on all cashflows associated with the loan. Thus, in order for the Bank to be repaid on any interest or principal, the co-lenders must also be repaid on their own claims. The effect of this is to elevate the entire loan (irrespective of the size of the Bank's own share) to preferred creditor status. The "comfort" provided to the co-lenders therefore is one of ensuring that their claims are afforded a form of seniority. In the guarantee transactions, in contrast, the Bank has no obligations to accept an equal role with the other creditors, and in fact, has taken a firm stance that it will not agree to subordinate its own claims (that would arise in the event of a payment on the guarantee) on the borrower to claims of the commercial lenders. Also the Bank's exposure is clearly separable from the creditor banks' exposure in a guarantee transaction; in the direct participation, in contrast, the distinction in respective exposures is somewhat blurred as a consequence of the sharing provisions. The relatively targeted and confined nature of guarantees has thus made them the instrument of choice in providing credit enhancement to new money agreements. Guarantees of late maturities only have been preferred in particular because of their low costs in terms of country exposure in the near term.

73. The Bank has provided catalytic support to commercial banks' lending agreements in eight instances since 1982.<sup>10</sup> Five of these were undertaken after the Bank took, in 1985, a more explicit stance regarding the principles under which it was prepared to provide catalytic support and especially with regard to the provision of credit enhancement in the context of concerted lending. Since that time the Bank has provided only

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<sup>9</sup>/ Thus far, the Bank has only used partial guarantees in the context of playing a catalytic role in heavily indebted countries.

<sup>10</sup>/ For Argentina, Chile, Cote d'Ivoire, Colombia, Ecuador, Mexico, Nigeria, and Uruguay. Annex [B] contains a brief description of the linkages/support provided in each instance.

one guarantee on a syndicated loan agreement (for Mexico) and has agreed to varying degrees of linkages in the others (for Argentina, Colombia, Cote d'Ivoire, Ecuador, Nigeria).

#### The Bank's Expanded Role in Catalyzing New Money

74. As discussed above, the changes within the banking community have led to attempts to expand the "menu" of alternatives within new money packages.<sup>11</sup> In principle, the Bank could play a role in facilitating almost any of them, and staff have researched many possibilities on the understanding that they would be embarked upon only if they make sense in the context of particular country cases. The principal techniques that have been considered--and potential IBRD roles--include the following:

New Money Bonds: Such bonds would be issued to banks as part of their new money requirements. Because of their greater tradeability and perceived seniority, they could be useful to banks in managing their exposure to particular countries. As in the case of syndicated new money agreements, the Bank could provide cross-default protection or partial guarantees, perhaps as part of an underwriting syndicate. Other possible roles could include acting as a bond trustee/agent and in the case of a collateralized bond, to issue the securities used in collateralization.

Convertible Bonds: These bonds would carry warrants to allow conversion to specific equity issues in public companies; such an issue could be offered in the context of a privatization program. The Bank's role would be along the lines described above except that the guarantee could be structured to fall away in the event the conversion is exercised, potentially leveraging IBRD capital and creating additional support for privatization programs.

Interest Capitalization: This is viewed among banks as a way to secure new money while maintaining a broad base of lenders since, by definition, it ensures proportional burden sharing among creditors. The Bank's role could be to provide some linkages with its own lending to reduce the fear of interest capitalization becoming unilateral and undisciplined.

Contingent Lending Agreements: This mechanism allows the lender to provide finance according to the borrowers' needs. This technique has precedence in the 1987 Mexico refinancing that included two contingent facilities (one was triggered on falling oil prices and the other on GDP Growth). The Bank's role could be to provide some credit enhancement (as it did in the Mexico transaction) or to verify the events on which the contingent funds are triggered.

Commodity-Linked Bonds: These bonds would link debt service to the price of exported commodities, thus reducing the country's exposure to facing exchange shortages, or to have attached

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<sup>11/</sup> See "Market Based Menu Approach", SecM 88-- dated \_\_\_\_\_ for a fuller description of these techniques and the rationale behind them.

commodity warrants that would lower the cost of the financing. The Bank's role could be to provide partial credit enhancement, or in the case of the warrants, provide an administrative role in maintaining a trust account to service the warrants if they are exercised.

75. The breadth of techniques that need to be employed in the future to attract new money are represented in these possible mechanisms. The Bank's support for them, and the extent to which it can provide a direct role in them must however be determined in the context of its overall policies and authorities under its Articles as well as the specific principles it follows in providing a catalytic role in particular country circumstances. Also in this regard, special Bank-borrower relationships and the confidentialities it entails may preclude the Bank from undertaking specific roles in catalyzing new money, such as underwriting bond issues that would require enhanced disclosures about the debtor. Preserving the institution's prime standing in the capital markets is also an important consideration, and will place a limit on the type of role the Bank can play.

76. Possibilities also exist to use the Bank's guarantee authority in new ways and in a wider range of circumstances. For instance, "rolling" guarantees on interest would cover, at any given time, only one or two interest payment installments, but would (if the covered payments are made) "roll" to subsequent installments. Impetus to commercial offerings, (especially bond issues where timely payment of interest is of paramount importance) would thus be possible without requiring a significant amount of resources from the Bank. The possibility of limiting the sharing provisions in direct participation mechanisms in some form or another (for example, sharing provision on cashflows in such participations could be limited to particular interest payments, rather than to all cashflows) could be another variation on the provision of credit enhancement.<sup>12</sup>

77. The Bank's role in catalyzing such flows must be viewed in the context of its overall country assistance strategy. Credit enhancement uses capital and even guarantees on late maturities require some adjustment in direct lending by the Bank. The key issue is what is the most effective use of IBRD capital in a particular country. As noted above, ensuring the adequacy of external finance is crucial to its total assistance to the debtor, and the Bank's catalytic efforts are important to encouraging other lenders to support the country's adjustment efforts. Providing excessive support, on the other hand, will skew the overall burden sharing balance and increase the Bank's own exposure. Some Bank support and catalytic involvement is likely to be necessary in most country cases, but must remain somewhat limited in scope.

78. Individual proposals along the lines described above will be brought to the Board as they emerge. In this regard, the responsibility of the commercial lenders themselves to adopt mechanisms to encourage

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<sup>12/</sup> The use of the Bank's guarantee authority in the context of interest rates swaps and other asset-liability management techniques for its borrowers is an example of this potentially broader scope for using credit enhancement.

their counterparts to share in the new money requirements and spread the exposure equitably among themselves must be emphasized. A more active role for the Bank in providing catalytic support for new money cannot occur in isolation; it requires the active collaboration of commercial banks, especially of the lead banks, to make the international lending process itself more streamlined and responsive. Fortunately, the concern among creditor banks themselves of the free rider problem and their general inability to get such banks to exit appears to be rising and may result in the adoption of more responsive measures within the banking community.

#### IBRD Role in Alternative Debt Conversion/Reduction

79. As noted earlier, debtor countries, commercial banks and other market participants are developing new approaches to dealing with the issue of cashflow relief. Debtors view such relief as a relatively quick approach to get their ratios to more manageable levels. Creditors, and especially commercial banks that no longer view continued lending to LDCs as part of their strategic plans, are working toward managing their loan portfolios more actively and keeping higher controls over their LDC exposure. One result of this is that concessional debt conversion/reduction proposals whereby the nature and the value of the commercial bank loans are reduced are becoming increasingly possible.

80. The majority of these proposals remain untested, but a few of them have proved to be relatively successful. Moreover, new ideas to effect these forms of financial relief continue to be aired from time to time.<sup>13</sup> The Bank has critically reviewed many of these techniques both from the standpoint of the relative costs and benefits to the country compared with the more traditional approach of concerted new lending, and also from the standpoint of a possible role for the institution itself in participating, under appropriate circumstances, in such efforts.

81. These emerging techniques vary in the extent to which they: (a) reduce the debt burden; and (b) are complements to, or substitutes for, new money flows. The best illustration of a technique that can serve both purposes is a debt to equity conversion program in which a portion of the secondary market discount is "captured" by the country through an auction process or conversion fees. Commercial banks have strongly encouraged countries to introduce debt/equity programs, especially in the context of new money negotiations. In Chile and Mexico, for example, debt/equity conversions have, if anything, strengthened these countries' creditworthiness and ability to access new funds.

82. Outright debt reduction techniques, on the other hand, are generally incompatible with obtaining new money from the same institutions, and have thus been focussed primarily on so-called "exit" instruments. Nonetheless, it can be argued that having debt reduction mechanisms available in order to facilitate "exit" will tend to enhance the claims of the remaining banks and hence contribute to strengthening creditworthiness. The fragmentation of the commercial banks' interests has resulted in many of these institutions wanting to leave the lending

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<sup>13/</sup> See "Market Based Menu Approach".

process, but being prevented from doing so by their peers that must remain involved with the debtor, but who fear an even larger burden of lending will fall to them as a result of exiting banks. These forces are precipitating the development of exit processes that would allow some banks to leave the lending process, but by recognizing some form of present value loss on exit would do so without inordinately burdening the banks that opt to remain in the system. The Mexican government in announcing the collateralized exchange scheme noted that the offer was aimed at hastening the country's return to creditworthiness.

83. Debt reduction techniques (that work on reducing the principal outstanding) have been advanced, for the most part, in parallel with the increased discounts that appear to be available in the secondary market in LDC debt.<sup>14</sup> These discounts have continued to increase over time (typically even in cases where economic prospects for the debtor have clearly taken a turn for the better) and it remains unclear whether large volumes of non-swap transactions could be executed at the indicated prices.<sup>15</sup>

84. Debt service relief can come either from principal reduction or interest reductions/waivers. Interest reduction or waivers may prove more acceptable to lenders because they can be more easily tied to conditionality than principal reduction. Another advantage of interest reductions, from the standpoint of lenders, is that they could, under certain circumstances, allow a more gradual recognition of loss than an up-front writedown of principal. Finally, interest waivers are easier to accomplish in the context of syndicated loan agreements; the waiving of interest by a single bank would not require the consent of other members of the lending syndicate. On the other hand, interest waivers do not affect the exposure of the creditor to the country. They would therefore be of little interest to creditors that are seeking to exit, and thus must be primarily viewed as a mechanism to add flexibility to debtor-creditor actions in the context of a long-term workout process. From the standpoint of the borrowers, interest waivers also provide significant cashflow relief, without requiring an upfront payment as in cash buybacks or collateralized exchange offers.<sup>16</sup>

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<sup>14/</sup> The majority of participants in the secondary market thus far have been commercial banks that swap one country's debt for another, thus avoiding realizing any losses, despite the discounted prices of the debt. Cash or conversion transactions, that underlie debt reduction, would require recognition of such losses and hence may have a dampening effect on the size of the discounts.

<sup>15/</sup> The outcome of the Mexican collateralized exchange, currently on offer, will shed more light on the applicability of the secondary market quotations for debt reduction transaction.

<sup>16/</sup> Interest waivers of about 2 percentage points granted informally to all 17 heavily indebted countries would generate the same first year financial relief for heavily indebted countries as \$5-6 billion in new lending, but would not add to debt outstanding.



85. Perhaps the most successful technique among these various alternatives has been debt conversions, especially debt-equity conversions. In the wake of Chile's accomplishments with its debt conversion programs, a number of other debtors have initiated their own programs or, in some cases, reoriented programs that were dormant. Furthermore, variations of this basic idea have been developed that aim to disseminate the benefits of equity ownership in the host country itself (for example, through employee stock ownership plans).
86. Exchange offers--securitization--continue to attract attention and may offer long-term potential. The Mexican collateralized exchange scheme significantly increased the flow of proposals in this area. Apart from collateralization (which has the drawback that up-front resources for securing the principal and waivers of negative pledge by creditors are required), other possibilities to facilitate exchange offers have been proposed and could, in time, prove attractive. For example, in certain situations, it may be advantageous to arrange an exchange offer incorporating insurance coverage on principal repayment.
87. The Bank's role in debt conversion and debt relief must be to facilitate negotiated agreements between the debtor and its creditors, while ensuring that it does not overstep the exposure limits that have been established for its own portfolio. Moreover, in providing support for these mechanisms, the institution's overall country assistance strategy must remain in focus. Thus, in cases where such forms of alternative cashflow relief are a means of facilitating exit, and the Bank is playing a catalytic role in new money, any support the institution provides to facilitate exit should not undermine its role in assisting the country to return to normal borrowing relationships with the market. In facilitating mechanisms, it should also follow essentially the same principles as those that guide its role in encouraging new money transactions. In particular, the Bank must look for ways in which to preserve the collaborative nature of the debt workout process and facilitate the transformation of any writedowns that are being taken by creditor banks into debt relief for the debtor.
88. Support for debt conversions, and especially debt-equity conversions, is already operational. In its overall country strategy, the Bank seeks to increase efficiency in the domestic economy and, where appropriate, supports needed privatization programs. With the IFC, the Bank also encourages more efficient equity markets and technical advice in swap programs. Moreover, MIGA has been specifically authorized to provide support for debt-equity conversions, and, once it becomes operational, could be a source of significant encouragement for them. In addition, the Bank has received at least one proposal that it provide credit enhancement to a debt equity conversion linked to an employee stock ownership plan.
89. With regard to debt reduction, the Bank has explored many alternatives for providing support. In the Mexico collateralized exchange, the waiver of the Bank's negative pledge was necessary for allowing the offer to proceed. Apart from this, the Bank could provide support in many of the same ways that it is exploring in the context of providing support for new money bond issues. These include a bond trustee role, facilitating exchanges through the provision of collateral securities, waiving its

negative pledge clause, and credit enhancement. The possibility of providing insurance (based on an adequately funded risk pool) against principal repayment on exchange offers is also being explored in this context.

90. One consequence of the financial markets' increasingly selective process of providing credit to the less developed countries is that a few middle income countries are expected to face particular problems in assembling new money packages. These are countries where economic performance is weak, means to correct imbalances in the economy have been ineffective and where the level of overall commercial exposure is low, thus making the economic viability of the debtor a matter of little consequence (from a profitability standpoint) to the creditors.<sup>17</sup> Nonetheless, as a development institution, the Bank may be actively supporting the country's adjustment program. In such cases, it may be both necessary and possible to bring about consensual debt relief. Such relief could range from outright forgiveness (in the countries that have particularly high levels of debt relative to their GDPs) to various forms of long-term reschedulings with either interest waivers or at concessional interest rates. In some cases, the cost of writedowns of non-performing debt that are required by regulators could be avoided by some type of long-term rescheduling with insurance on principal (that might be provided by a third party for an appropriate fee). The Bank's role in such situations could be to facilitate cashflow relief, for example, by providing insurance on a long-term rescheduling of principal.

91. As noted above, the specific catalytic role that the Bank might seek to play either in mobilizing new money or debt reduction will need to be determined on a case-by-case basis, reflecting both country assistance needs and the specific roles and attitudes of various creditor groups. In some countries, the primary form of financial relief may well turn out to be debt reducing in nature. In any event, it may be that the most productive near-term catalytic role for the Bank--in terms of achieving a lasting resolution of the external financing problems of the country--may be to facilitate some form of consensual reduction in existing debt service rather than a further addition to the debt stock. Indeed, the Bank has already been approached by a number of borrowers and banks for assistance in helping catalyze such consensual debt reductions.

92. Such a role raises a special set of risk management issues for the Bank. One such issue is the possibility of confrontation with some portion of the commercial banking community, particularly those banks most committed to trying to recover full principal at market rates of interest and most prepared to endure periods of protracted arrears if necessary in order to keep pressure on the country to eventually make full payment on market terms. A second issue concerns the Bank's eventual share of debt

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<sup>17/</sup> These countries are distinct from the debt distressed low income countries (primarily in Africa) where the Special Program of Assistance will provide a major source of quick-disbursing assistance from IDA and other aid agencies. The circumstances of such borrowers are clearly different. Their creditors are heavily weighted toward official sources and bilateral aid agencies; claims of commercial lenders make up a small part of their indebtedness.

service in such countries. Reductions in claims by other creditors, especially if facilitated through some credit enhancement by the Bank, increase the relative share of the Bank in debt service. In most of the countries where such consensual debt reductions might be possible, the Bank's share of total debt is already high by traditional standards and seems likely to increase in any event since these countries' prospects for additional private financing are limited. Finally, there is the problem of moral hazard in granting or facilitating debt relief for any of the middle-income countries. Commercial lenders have been concerned since the beginning about the possibility of "contagion" of their negotiating positions in the major debtor countries, were they to agree to certain forms of financial relief in other countries, even where it clearly made better sense from the standpoint of traditional commercial bank approaches to debt workouts.

93. It would be a mistake to treat these issues lightly, or on the other hand, to allow them to paralyze further evolution of the Bank's role in catalyzing market-oriented approaches to the international debt strategy. The key is not to do things to extremes, but to recognize the limitations of the Bank in providing credit enhancement and in carrying risks on its own balance sheet. The Bank's role must remain catalytic in nature, and aimed at fostering innovations that the market itself is producing. Fortunately, the developments noted in Section D that are likely to frustrate the new money process in many respects also seem likely to open doors for more innovation with respect to alternative, consensual forms of financial relief. The Bank cannot and should not replace these market forces. But it can, consistent with the objectives of its Articles of Agreement, use its own lending presence and credit enhancement powers to facilitate such innovations on a case-by-case basis.

94. It is stressed that these techniques cannot, in any case be viewed as providing the whole answer to the issue of restoring credit-worthiness; the primary effort must be to assure that strong adjustment measures are undertaken. In the coming months, specific transactions in the support of strong adjustment efforts are likely to be developed. As and when they do, they will be presented to the Board for consideration. In the meantime, staff work will continue on design and evaluation of specific financing techniques and Bank roles.

#### F. CONCLUSION

95. The Bank's operational strategy in the heavily-indebted middle-income countries is geared around a restoration of these countries' growth and normal borrowing relationships with financial markets. Because this is a medium-term problem, involving fundamental structural adjustment at the level both of the national economy and specific sectors and enterprises, the Bank inevitably must play a central role in the workout process. Its lending programs in these countries thus increasingly involve a carefully sequenced series of lending operations involving both macroeconomic and sector-specific conditions. A high proportion of lending is in the form of quick-disbursing adjustment support, integrated with and supported by substantial lending for new investment.

96. The failure of growth to resume on a sustainable basis in many of the heavily-indebted countries remains a major cause for concern. The fact that it is traceable in part to weak economic growth in the industrial countries and shortfalls in financial support from other creditors makes the adjustment challenge faced by countries more difficult.

97. The projections stemming from (and underpinning) the Bank's country assistance strategies continue to indicate that growth-oriented adjustment programs can succeed in gradually bringing down debt ratios over time, at least for most of the countries in this group. These projections assume, however, that necessary financial relief will be forthcoming in amounts significantly larger than has been the case in the recent past. While the Bank's financial role can and should remain significant in meeting these financing requirements, it is also crucial that other creditors continue to do their part.

98. It seems clear that the Bank will need to take a stronger role in the future in helping mobilize incremental financing from other creditors, relying primarily on the quality of its own policy dialogue and the adjustment programs that it is prepared to support. But a broader catalytic role is also required in which a balance must be struck on a case-by-case basis between providing a catalytic role in encouraging new money from other creditors and assuming an overly disproportionate share of debt. In other cases, it may also be appropriate for the Bank to play a role in facilitating debt conversions and reductions, especially in cases where new money is not forthcoming.

99. Management intends to continue dealing with these issues on a case-by-case basis.

THE EVOLUTION OF BANK LENDING IN THE  
HEAVILY INDEBTED MIDDLE INCOME COUNTRIES  
FY83-87

1. The instruments used by the Bank in adjustment lending to highly indebted middle-income countries changed after 1983. The share of investment lending fell from about 80% in FY82-84 to about 70% in FY85-87. The share of general structural adjustment lending (SALs) in total adjustment lending fell from 61 to 9%, while that of sectoral adjustment loans (SECALs) increased from 31 to 91% of the total. While the direction of this change is consistent with overall Bank trends, its speed was much greater than average in highly indebted middle-income countries in reflection of both the special needs that they faced and of the actual avenues open to the Bank to help their adjustment efforts (Table 1).

Table 1: Bank Lending to Highly Indebted Middle-Income  
Countries by Main Type  
(\$ million)

Type/Years	FY 82-84 (cumulative)	(% of Total)	FY 85-87 (cumulative)	(% of Total)
Structural Adj. Lending	1,114.4	(8.3)	965.0	(5.6)
Sector Adj. Lending	1,550.7	(11.5)	4,314.1	(24.8)
Investment Lending	<u>10,835.0</u>	<u>(80.2)</u>	<u>12,069.2</u>	<u>(69.6)</u>
Total	13,500.1	(100.0)	17,348.3	(100.0)

Memo items:

-% share of total Structural Adj. Lending in total Bank lending	8.0	3.0
-% share of total Sector Adj. Lending in total Bank lending	4.6	14.9

2. Bank lending priorities in this group of countries have closely mirrored the policy priorities being pursued at the country level, often with the active backing of the Bank. Sector lending to highly indebted middle-income countries has mostly gone towards the direct rehabilitation of production capacities, particularly in agriculture (in Argentina, Brazil, Colombia, Ecuador, Nigeria, Morocco, the Philippines, Uruguay and Yugoslavia) and the restoration of outward orientation of many of their

economies (in Costa Rica and Jamaica, in addition to Argentina, Brazil, Colombia, Mexico and Morocco). Sector lending in these two areas has come to account for about 80% of the total. In relative terms, lending in support of trade policy reform and trade development was somewhat stronger in the earlier than in the most recent period, while the opposite is true of sector lending for agriculture (Table 2).

Table 2: Destination of Bank Sector Adjustment Lending to Highly Indebted Middle-Income Countries  
(\$ million)

Destination/Years	FY 83-84 <sub>a</sub> / (cumulative)	(% of Total)	FY 85-87 (cumulative)	(% of Total)
Agriculture <sub>b</sub> /	340.0	(21.9)	1,510.0	(35.0)
Trade Policies and Trade Dev.	907.7	(58.5)	1,992.0	(46.2)
Credit and Finance	303.0	(19.5)	-	-
Public Enterprise Reform	-	-	260.0	(6.0)
Education	-	-	150.0	(3.5)
Reconstruction	-	-	402.1	(9.3)
<b>Total</b>	<b>1,550.7</b>	<b>(100.0)</b>	<b>4,314.1</b>	<b>(100.0)</b>

a/ Sector lending was nil in FY82

b/ Including lending for fertilizers

3. In recent years, moreover, lending in support of the restructuring of public enterprises has also increased to reach 6% of total sector lending in FY85-87 (Jamaica, Morocco). Economic recovery loans were instead made in situations where the need to sustain the effects of major economic shocks remained overwhelming (the Philippines and Bolivia). In recent times, with the changing needs of these countries, Bank sector lending has moved appreciably towards meeting social priorities (especially in education and basic social services). In some cases, this type of lending is the most effective avenue for contributing to the success of policy reform, insofar as it tends to cushion some of the negative social effects that policy induced structural changes may have in the short run.

4. Bank economic and sector work has played a critical role in enabling the Bank to tailor the kind and sector of destination of its lending to the needs of the highly indebted middle-income countries. Identifying overall priorities in the process of country economic reform is a main task of Bank macroeconomic work. Equally important is the help in the design and sequencing of policies that the Bank can offer. This is a

function of both the economic analysis and of the closeness of dialogue over policies that Bank staff have been able to develop and maintain. Sector work, in turn, is essential to devising the priorities for Bank lending and their compatibility with the overall strategy being pursued by country authorities.

5. Economic and sector work had to be developed and strengthened in the early 1980s under strong pressures emanating from the specific country situations and needs of the debtor countries, as well as from the demands being put on the Bank by the international financial community and by the government authorities of creditor countries.

6. Overall country economic work, conducted in closed contact with the staff of the Fund, was focussed on the identification of the structural conditions for renewed growth and their mutual compatibility, as well as on the capital requirements that lay behind them. Country sector work concentrated instead on the specific requirements of those segments of the economies of highly indebted middle-income countries that could be restructured or whose performance could otherwise be improved with targeted policy actions supported by outside financial help. The policy conditionality that could properly and effectively be attached to Bank adjustment lending was also a focus of country and sector work, as the leeway for directly reducing policy changes was thought to depend on both the internal coherence and the time horizon of government economic strategy itself a function of the availability and costs of external resources.

IBRD Catalytic Role in Commercial Debt Restructuring Agreements  
Summary of Linkages and Support Provided 1982-1987

Country	New Money/ Rescheduling Package	Parallel Co- financing <u>a/</u>	Linkages between Com- mercial Loans and IBRD Operations <u>b/</u>	Optional Cross-Default Linkages Between IBRD and Com- mercial Loans <u>c/</u>	Non Confidential Information Sharing Obligations <u>d/</u>	Other IBRD Certification Obligations <u>e/</u>	IBRD Partial Guarantee
Argentina	1987 \$1.95 billion New Money	x	x	x			
Chile	1985 \$1.09 billion New Money		x	x	x	x	x
Colombia	1988 \$1.06 billion Term Loan	x			x		
Cote d'Ivoire	1986 \$820 million MYRA					x	
Ecuador	Proposed 1988 \$350 million New Money	x	x	x			
Mexico	1987 \$7.45 billion New Money		x	x	x	x	x
Nigeria	1987 \$320 Million New Money/ Rescheduling		x		x		
Philippines	1987 \$9.3 billion Rescheduling					x	
Uruguay	1986 \$45 million New Money			x	x	x	x



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- a/ Parallel financing refers to financing provided by IBRD and the commercial banks, each under a separate loan agreement with the borrower, in support of an identified structural or sectoral program of adjustment or reform, concerning which agreements there are no linkages other than optional cross-default linkages (except in Colombia) and information-sharing.
- b/ New money loans are typically available in tranches. The linkages referred to here are those whereby the availability of such new money tranches are made conditional upon approval of new IBRD loans to the borrower, loan effectiveness or the borrower's drawing down identified amounts under particular IBRD loans.
- c/ Commercial banks' new money loan agreements with sovereign borrowers invariably include an optional cross-default clause in respect of IBRD loans, which provides that any payment default by the borrower of a material amount that persists for more than 45 days or any acceleration under IBRD loans to the borrower would be an event of default. The linkage referred to here is where the IBRD loan agreement itself includes an optional cross-default clause in respect of the commercial bank new money loan which provides that any suspension, cancellation or termination of the commercial loan would be an event of default.
- d/ Examples of information-sharing are provision of supervision mission reports, project-related information, economic information, all of a non-confidential nature.
- e/ Two types of obligations are included here: (1) where IBRD agrees to notify the commercial banks of any suspension, cancellation or acceleration, payment defaults of more than 45 days, etc. under particular IBRD loans and/or (2) where IBRD provides certain information concerning the status of IBRD commitments, disbursements and, occasionally, scheduled repayments in respect of particular IBRD loans, or IBRD loans in the aggregate, to the borrower.

DFS

February 26, 1988

February 29, 1988

Dear Ambassador Garwe:

Thank you for your letter of February 22 informing me that you will be leaving Washington on March 3, at the conclusion of your assignment as Ambassador of Zimbabwe to the U.S. Your earnest cooperation, Mr. Ambassador, has greatly facilitated relations between your Government, your Mission and the World Bank during your tenure in Washington. My colleagues and I are most grateful for your assistance and the hospitality which you have shown. Please accept my best wishes for your future endeavors.

Please be assured of my highest consideration.

Sincerely,

(Signed) Barber B. Conable

His Excellency  
Edmund R. M. Garwe  
Ambassador  
Embassy of the Republic of Zimbabwe  
2852 McGill Terrace, N.W.  
Washington, D.C. 20008

cc: Messrs. Qureshi (SVPOP), Jaycox (AFRVP), Sandstrom (o/r) (AF6DR)  
Jembere (EDS), Imam, Walton (AF6CO)

HWMessenger:bt

*bt*

WORLD BANK OTS SYSTEM  
SENIOR VICE PRES. OPERATIONS

CORRESPONDANCE DATE : 88/02/22

DUE DATE : 88/03/01

LOG NUMBER : 880229001

FROM : EXC

SUBJECT : LETTER FROM AMB. ZIMBABWE TO US UPON ENDING HIS APPOINTMENT -  
EXPRESSING APPRECIATION OF CORDIAL RELATIONS WITH BANK

OFFICE ASSIGNED TO FOR ACTION : Mr. Jaycox (J-5-073)

ACTION:

\_\_\_\_ APPROVED  
\_\_\_\_ PLEASE HANDLE  
\_\_\_\_ FOR YOUR INFORMATION  
\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION  
\_\_\_\_ FOR THE FILES  
\_\_\_\_ PLEASE DISCUSS WITH \_\_\_\_\_  
\_\_\_\_ ✓ PLEASE PREPARE RESPONSE FOR Mr. Conable's SIGNATURE  
\_\_\_\_ AS WE DISCUSSED  
\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS : PRIORITY #1

PLEASE SEND THIS REPLY TO OUR OFFICE BY COB TUESDAY, MARCH 1

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

RECEIVED

88 FEB 29 AM 8:12 8f0229001

CORRESPONDANCE DATE : 88/02/22 DUE DATE : 88/03/02  
LOG NUMBER : 880225019 FROM : Edmund R.M. Garwe  
SUBJECT : Informing BBC that he will be leaving Wash. DC on Mar. 3 upon  
conclusion of his appt. as Amb. of Zimbabwe of the US.  
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

\_\_\_\_ APPROVED  
\_\_\_\_ PLEASE HANDLE  
\_\_\_\_ FOR YOUR INFORMATION  
\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION  
\_\_\_\_ FOR THE FILES  
\_\_\_\_ PLEASE DISCUSS WITH \_\_\_\_\_  
\_\_\_\_ ✓ PLEASE PREPARE RESPONSE FOR BBC'S SIGNATURE  
\_\_\_\_ AS WE DISCUSSED  
\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS : Note: This will be hand-delivered to the Ambassador on Mar. 2,  
before his departure from Washington, so please ensure that  
reply is received no later than March 2 for BBC's signature.

EXPEDITE



TELEPHONE (202) 332-7100

**EMBASSY OF THE REPUBLIC OF ZIMBABWE**  
2852 MCGILL TERRACE, N. W.  
WASHINGTON, D. C. 20008

OUR REF.: ZWA/H/27/

YOUR REF.:

22 February, 1988

Dear President Conable

I have the honour to inform you that I shall be leaving Washington, D.C. on 3 March at the conclusion of my appointment as Ambassador of Zimbabwe to the United States of America.

I should like to take this opportunity to convey to you, Sir, my very sincere appreciation for your contribution to the cordial relations which have existed between the World Bank and my Mission during my term of office in Washington.

Please accept, President Conable, the assurances of my highest consideration.

  
Edmund R M Garwe  
AMBASSADOR

THE HONOURABLE BARBER B. CONABLE  
PRESIDENT  
WORLD BANK  
1818 H STREET, N.W.  
WASHINGTON, D.C.

February 29, 1988

Mr. Conable:

We have not provided any funds to Paraguay for some time. Economic performance has been bad and the general policies of the Government are unacceptable for Bank lending. We have absolutely no influence or leverage on the Government and it would be most unwise for the Bank to try to increase its profile or undertake any lending under current circumstances. I understand that such a posture may help IFC dispose of its property but it would be a serious error for the Bank to try to assist in this matter in the current circumstances.

*Moeen*  
Moeen A. Qureshi

cc: Mr. Husain

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

24940 \*MH

1. conf. tag

CORRESPONDANCE DATE : 88/01/15  
LOG NUMBER : 880126001  
SUBJECT : PARAGUAY: The Nature Conservancy's Proposals Relating to Land Owned by IFC.  
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)  
DUE DATE : 00/00/00  
FROM : William Ryrle

ACTION:

- \_\_\_\_\_ APPROVED
- \_\_\_\_\_ PLEASE HANDLE
- \_\_\_\_\_ FOR YOUR INFORMATION
- \_\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION
- \_\_\_\_\_ FOR THE FILES
- \_\_\_\_\_ PLEASE DISCUSS WITH BBC o/r
- \_\_\_\_\_ PLEASE PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE
- \_\_\_\_\_ AS WE DISCUSSED
- \_\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS : cc: Messrs. Hopper, Qureshi, Shihata and Warford  
(This will be reviewed by Mr. Conable on his return to office on Wednesday, January 27. Please review for any comments.)

Marianne Haug

Mr Conable:

cc. Mr. Husain:

We have not provided any funds to Paraguay for some time. Economic performance has been bad and the general policy of the Government is unacceptable for Bank lending. ~~They have~~ We have absolutely no influence or leverage on the Government and it would most unwise <sup>for the Bank</sup> to try to ~~disrupt these projects~~ unless its people or undertake any lending under current circumstances. I understand that such a program may help IFC dispose off its property but it would be a serious ~~error~~ <sup>error</sup> for the Bank to try to assist in this matter. (Skel).

# OFFICE MEMORANDUM

DATE: January 15, 1988

TO: Mr. Barber B. Conable

FROM: *M. Sebastian*  
for William Ryrie

SUBJECT: PARAGUAY: The Nature Conservancy's Proposals Relating to Land Owned by IFC

1. We spoke about this matter on December 16, 1987.
2. I have been consulting with my colleagues in IFC about the Nature Conservancy (NC) idea in conjunction with the IFC properties in Paraguay. A brief description of the properties is attached.
3. The NC idea is worth considering further, but there are problems. I believe that if we are to proceed we should do so under the IBRD's environmental and ecological program and that we all should recognize the legal and political difficulties involved. The difficulties stem from legal claims to the land being alleged by local military chiefs in Paraguay and from the apparent connection of these parties to President Stroessner. The "availability" of the main property for the NC proposal thus will in all likelihood require Presidential involvement in Paraguay, as well as a financing source to compensate IFC appropriately for the property as discussed further below.
4. NC considers the main IFC property (Parcel A) as "a last major formation of Dense Humid Sub-Tropical Forest in Latin America," and apart from its ecological significance, the property is claimed to have important socio-cultural implications because of the alleged presence of a small, highly primitive, and fragile Ache Indian Tribe (IFC has not been able to verify the latter).
5. NC proposes that the property (Parcel A) be kept as a wildlife preserve by the Paraguayan Government with NC taking an active management role. Because of the commercial prospects of the forest, the property is highly coveted by people in positions of influence within the country, and has been the object of several harassing legal actions (title claims against portions of the property). Some of these actions are pending resolution. To implement the project, the government's support at the highest levels would have to be obtained to settle the illegal claims and for Paraguay to agree to invest in the project, which has no obvious financial benefits. Hence, attractive financial terms would need to be offered to Paraguay, which could perhaps be done as part of an IBRD lending program, or tailored especially for this pioneering project by IBRD.



6. The operational staffs of IFC and IBRD have already had considerable dialogue about the NC proposal. I believe that joint work could continue to try to resolve the legal claim issue and explore financing sources.

7. Substantive progress in the near term, however, is likely to require a stepped-up IBRD profile vis-a-vis the Paraguayan authorities. And, ultimately, both the transaction and environmental project would be handled by IBRD.

8. IFC's asking price for the larger property (57,715 has.) has been US\$5.0 million, and \$0.7 million for the smaller one (11,230 has.). Both properties together with wood processing equipment are carried in our books at a written down value of \$3.0 million; our original claim having been \$5.76 million in loan and charges.

Attachment.

cc: Messrs. Adams, Schultz, Zosa, Navarrete, Santos

JN:WR/mts

(Note: This memo was approved by Sir William Ryrrie prior to his leaving on a mission.)

PARAGUAY - FINAP

THE ASSETS

With a total area of 406,752 Kms<sup>2</sup>, Paraguay is divided into two geographically and ecologically different regions. The western region, or Chaco, is a very extensive plateau and occupies approximately 60% of the country's area. This region is extremely humid in its southeastern portion and extremely dry in the northwest.

The eastern region occupies the remaining 40% of the country and is more climatologically homogeneous. The richest forests in the country are located in the eastern side of this region. They have been exploited for many years making it therefore very difficult to find any virgin land in this zone.

The two IFC properties are located in said eastern region. Through the efforts of the IFC hired forest rangers and their management team, both properties have been kept free of squatters or poachers. The local authorities have from time to time rendered effective assistance in ending attempts to occupy the land. Lately, however, this assistance has weakened.

PARCEL A

This parcel, measuring 57,715 hectares, is located in the Department of Canindeyu, near the Mbaracayu Mountains in the border with Brazil. In the shape of an irregular rectangle, it measures approximately 30 Kms from north to south and 20 Kms from east to west. The land, which is in its virgin state, is almost totally covered by forests. Seventy nine percent of these forests could be classified as commercial types and 41% of the 79% could be considered high productivity species, i.e. , 15 meters or more in height and/or significant quantities of commercial species.

PARCEL B

Measuring 11,230 hectares, Parcel B is also located in the Department of Canindeyu, approximately 100 Kms southwest of Parcel A. The property adjoins Rio Corrientes in the southwest and Arroyo Aguadita in the northwest. Also in its virgin state, this bloc has limited representation of commercial forest types. Sixty-three percent of the total area is covered by intermediate low forests, i. e. , less than 15 meters in height but good quantities of commercial species.

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

RECEIVED

88 MAR - 1 PM 2:43 February 23, 1988

BARBER B. CONABLE  
President

H.E. Andre Kolingba  
President of the Republic  
Presidency of the Republic  
Bangui  
Central African Republic

Mr. President,

I was very pleased to receive your letter of January 25, 1988 in which you have conveyed to me your agreement to the opening of a Resident Mission of the World Bank in the Central African Republic, and your wish that this be done as rapidly as possible.

We have already started the process of selecting a qualified Resident Representative with a view to his transfer to Bangui. We consequently hope to be able to propose such a candidate for the agreement of your Government in the near future. Meanwhile I would like to assure you that, from our side, we are making every effort to ensure that the opening and the start-up of this Resident Mission will take place as soon as possible. We would have thus, together, taken another important step towards the further development of the excellent relations between the Central African Republic and the World Bank.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

cc: Messrs. Milongo, Qureshi, Jaycox, Serageldin, Landell-Mills  
H.E. Chr. Lingama-Toleque, Ambassador of the Central African Republic  
in Washington  
RFares/mtg

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

BARBER B. CONABLE  
President

Le 24 février 1988

S.E. André Kolingba  
Président de la République  
Présidence de la République  
Bangui  
République Centrafricaine

Monsieur le Président,

Il m'est très agréable de recevoir votre accord sur l'ouverture d'une mission résidente de la Banque Mondiale en République Centrafricaine.

J'ai le plaisir de vous annoncer que nous avons déjà entrepris le processus de sélection d'un Représentant Résident et nous espérons être prochainement en mesure de présenter un candidat à votre agrément. Entretemps, je tiens à vous assurer que, de notre côté, nous mettons tout en oeuvre pour que cette mission puisse s'ouvrir et commencer ses activités dans les meilleurs délais. Nous aurons ainsi marqué ensemble une nouvelle étape importante dans la consolidation des relations, déjà excellentes entre la République Centrafricaine et la Banque Mondiale.

Je vous prie d'agréer, Monsieur le Président de la République, l'expression de ma très haute considération.

(Signed) Barber B. Conable

Barber B. Conable

cc: Messrs. Milongo, Qureshi, Jaycox, Serageldin, Landell-Mills  
S.E. Chr. Lingama-Toleque, Ambassador of the Central African  
Republic in Washington  
RFares/mtg

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Mr. Maljers:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

The seminar will focus on the region's overall economic situation and its prospects for growth and recovery. We will explain the Bank's role in the region, particularly our efforts to assist the countries in their adjustment process and help them restore their creditworthiness. As you know, over the past years the Bank has been the main source of net resources for the highly indebted middle-income countries. We also will review the Bank's role in facilitating the restoration of access to private capital markets by the Latin American and Caribbean countries. Time will be set aside for participants to discuss, in depth, their concerns and interests in individual countries as well.

I feel it is necessary, at this point, to facilitate private investments in the major countries of the region in order to accelerate their recovery process. Representatives of the International Finance Corporation, the Bank's affiliate which promotes private investments in the developing countries will share their experiences in equity investments and loans to the private sector in individual countries.

Attached please find an agenda for the seminar. Additional information will be provided in advance of the meeting.

I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Mr. F. A. Maljers  
Chairman of Board of Directors  
Unilever N.V.  
Burgemeester s'Jacobplein 1  
P.O. Box 760  
3000 DK  
Rotterdam, Netherlands

INTERNATIONAL INVESTMENT IN  
LATIN AMERICA AND THE CARIBBEAN

The World Bank  
April 12 and 13, 1988

Preliminary Agenda

**April 12th**

- 6:30 p.m. Cocktails
- 7:00 p.m. Dinner - Welcoming Remarks by Barber B. Conable

**April 13th**  
**Room E-1244**

- 8:15 a.m. Breakfast
- 9:00 a.m. **World Bank Policy and Approach Towards Private Sector Developments:** Moeen A. Qureshi, Senior Vice President, Operations
- 9:15 a.m. **Economic Situation and Prospects in the Latin America and Caribbean Region:** S. Shahid Husain, Vice President, Latin America and Caribbean Region
- 9:45 a.m. **Debt Conversions, Securitization, WB Guarantees, Cofinancing and Credit Enhancement:** David R. Bock, Director, Debt Management and Financial Services Department
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Guillermo Schultz, Director, Department of Investments, Latin America and Caribbean II
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- 1:00 p.m. Lunch - Closing Remarks by Barber B. Conable  
"D" Bldg. Executive Dining Room

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Mr. Hartley:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

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Attached please find an agenda for the seminar. Additional information will be provided in advance of the meeting.

I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Mr. Fred Hartley  
Chairman  
UNOCAL Corporation  
1201 West 5th Street  
Los Angeles, California 90017

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Mr. Maucher:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

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Attached please find an agenda for the seminar. Additional information will be provided in advance of the meeting.

I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Mr. H. Maucher  
Managing Director, Member of Board of Directors  
Nestle SA  
Avenue Nestle  
1800 Vevey, Switzerland

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Dr. Bierich:

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I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Dr. Marcus Bierich  
Chairman of Management Board  
Robert Bosch GmbH  
Robert-Bosch-Platz 1  
Gerlingen-Schillerhoehe  
Postfach 50  
7000 Stuttgart 1  
Germany

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Mr. Ejiri:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

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I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Mr. Koichiro Ejiri  
President  
Mitsui & Co. Ltd.  
1-2-1 Ohtemachi  
Chiyoda-Ku  
Tokyo, Japan

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

BARBER B. CONABLE  
President

February 19, 1988

Dear Mr. Leysen:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

The seminar will focus on the region's overall economic situation and its prospects for growth and recovery. We will explain the Bank's role in the region, particularly our efforts to assist the countries in their adjustment process and help them restore their creditworthiness. As you know, over the past years the Bank has been the main source of net resources for the highly indebted middle-income countries. We also will review the Bank's role in facilitating the restoration of access to private capital markets by the Latin American and Caribbean countries. Time will be set aside for participants to discuss, in depth, their concerns and interests in individual countries as well.

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Attached please find an agenda for the seminar. Additional information will be provided in advance of the meeting.

I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Mr. Andre Leysen  
President of Supervisory Board  
AGFA-Gevaert AG  
Bayerwerk, D-5090  
Leverkusen, Germany

INTERNATIONAL INVESTMENT IN  
LATIN AMERICA AND THE CARIBBEAN

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*can. Vazquez*

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

*cc HQ 2R*

DATE: February 18, 1988

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi *Qureshi*

FROM: Rainer B. Steckhan, Director, LA2DR *Steckhan*

EXTENSION: 61003

SUBJECT: PANAMA - Mr. Conable's Telex to President Delvalle

Following a meeting yesterday with Planning Minister Ricaurte Vasquez of Panama, I believe that it is timely for the Bank to make contact at a high level with the Panamanian authorities. Accordingly I attach a telex for Mr. Conable's signature to the president of Panama outlining our concerns on economic policy and debt servicing, and pressing him to undertake overdue Cabinet meeting on Monday, February 22nd, where we understand that the budgetary situation will be discussed. It is hoped that in the context of Panama's negotiations with other external creditors, this will increase the saliency of the arrears question, and might improve the chances of a resumption of normal servicing.

cc. Mr. S. Shahid Husain

RLaslett:sb

FORM NO. 75  
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP		DATE:
		Feb. 18, 1988
NAME		ROOM NO.
Mr. Barber B. Conable		
(Through Mr. Moeen A. Qureshi)		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	<input checked="" type="checkbox"/>	SIGNATURE
NOTE AND FILE	URGENT	
REMARKS:		
Panama's arrears to the Bank total approximately US\$25 million, the longest of which are at 109 days.		
FROM:	ROOM NO.:	EXTENSION:
Rainer B. Steckhan	I-8060	61003

Typewritten  
Character  
Must Fall  
Completely in  
Box!

PAGE

OFFICIAL DEPT/DIV  
ABBREVIATION

MESSAGE NUMBER

TEST NUMBER  
(FOR CASHIER'S USE ONLY)

1 → **1** OF **2**

**SVPOP**

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START  
HERE

REPUBLIC OF PANAMA

FOR PRESIDENT ERIC ARTURO DELVALLE.

DEAR MR. PRESIDENT. (AAA) I HAVE NOTED WITH CONCERN THE INCREASING ECONOMIC DIFFICULTIES THAT YOUR COUNTRY HAS BEEN FACING DURING RECENT MONTHS. IN ITS DIALOGUE WITH YOUR ECONOMIC TEAM, THE WORLD BANK HAS REPEATEDLY DRAWN ATTENTION TO THE NEED FOR PANAMA TO ADJUST ITS ECONOMIC POLICIES TO ACCORD WITH THE RESOURCES AVAILABLE TO IT. WE SUPPORTED SUCH POLICIES THROUGH OUR STRUCTURAL ADJUSTMENT PROGRAMS, AND COMMEND THE PROGRESS MADE BY YOUR GOVERNMENT DURING 1983-86. HOWEVER, IT APPEARS THAT THE ADJUSTMENT EFFORTS OF THAT PERIOD HAVE NOW SLACKENED OR BEEN REVERSED, IN PARTICULAR IN THE AREA OF PUBLIC SECTOR EXPENDITURE AND REVENUE POLICY. (BBB) MOREOVER YOUR PUBLIC SECTOR INSTITUTIONS HAVE EXPERIENCED DIFFICULTY IN MEETING THEIR INTERNATIONAL DEBT SERVICING OBLIGATIONS SINCE LATE 1987. IN PARTICULAR, I AM DEEPLY WORRIED BY PANAMA'S FAILURE TO MEET SEVERAL CONTRACTUAL PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS INCLUDING THE WORLD BANK. THESE INSTITUTIONS ARE THE MOST RELIABLE SOURCE OF FINANCE FOR ADJUSTMENT AND LONG-TERM DEVELOPMENT FOR COUNTRIES SUCH AS YOURS.

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OF  
TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE **Telex** TELEX NO. **368 3393** DATE **Feb. 18, 1987**

SUBJECT: **PANAMA: ECONOMIC POLICIES**

DRAFTED BY:  
**RLASLETT/grs**

EXTENSION:  
**69036**

CLEARANCES AND COPY DISTRIBUTION:  
**cc: Qureshi,SVPOP; Husain, LACVP;  
CORBO,LA2CO; MS. RUBIO, EDS**

AUTHORIZED BY (Name and Signature)  
**Barber Conable**

DEPARTMENT:  
**EXC**

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BLUE—Originator to Keep

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Character Must Fall Completely in Box!

PAGE

OF

1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION

SVPOP

MESSAGE NUMBER

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TEST NUMBER (FOR CASHIER'S USE ONLY)

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(CCC) THE COSTS OF THIS SITUATION ARE ALREADY BECOMING APPARENT: PANAMA'S PROTRACTED ARREARS WITH THE WORLD BANK HAVE FORCED US UNDER OUR ESTABLISHED RULES TO SUSPEND OUR DISBURSEMENTS FOR ONGOING PANAMANIAN DEVELOPMENT PROJECTS SINCE NOVEMBER 30, 1987. THE BANK AS A COOPERATIVE INSTITUTION DEPENDS FOR ITS ABILITY TO BORROW IN THE FINANCIAL MARKETS ON THE PREFERRED CREDITOR STATUS ACCORDED TO IT BY ITS MEMBER COUNTRIES, AND ARREARS TO THE BANK WEAKEN THE INSTITUTION AS A WHOLE AS WELL AS RESTRICT ITS ABILITY TO HELP PANAMA. (DDD) I SINCERELY HOPE THAT THESE ECONOMIC PROBLEMS ARE FACED SOONER RATHER THAN LATER, TO ALLOW PANAMA TO RETURN TO A PATH OF SUSTAINABLE GROWTH AND ECONOMIC DEVELOPMENT. REGARDS, BARBER B. CONABLE, INTBAFRAD.

END OF TEXT

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CLASS OF SERVICE	<b>Telex</b>	TELEX NO.:	<b>368 3393</b>	DATE	<b>Feb. 18, 1987</b>
SUBJECT:	DRAFTED BY:		EXTENSION:		
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		<b>Barber Conable</b> <i>Barber B. Conable</i>			
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TEXTNAME: \_\_\_\_\_

PAGE \_\_\_\_\_ OF \_\_\_\_\_

WDIAL  
.LA2CO  
OINFO

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-SUBJECT: PANAMA DIALOGUE  
-DRAFTED BY: R. LASLETT EXT: 69036  
-AUTHORIZED BY: BARBER CONABLE, PRESIDENT  
-CC: MESSRS. QURESHI, HUSAIN, LACVP; CORBO, LA2CO; MS. RUBIO, EDS  
-----

368 3393 =  
-ERIC ARTURO DELVALLE  
-PRESIDENT, REPUBLIC OF PANAMA  
BT

WASHINGTON DC - 18-FEB-1988

DEAR MR. PRESIDENT: (A) I HAVE NOTED WITH CONCERN THE INCREASING ECONOMIC DIFFICULTIES THAT YOUR COUNTRY HAS BEEN FACING DURING RECENT MONTHS. IN ITS DIALOGUE WITH YOUR ECONOMIC TEAM, THE WORLD BANK HAS REPEATEDLY DRAWN ATTENTION TO THE NEED FOR PANAMA TO ADJUST ITS ECONOMIC POLICIES TO ACCORD WITH THE RESOURCES AVAILABLE TO IT. WE SUPPORTED SUCH POLICIES THROUGH OUR STRUCTURAL ADJUSTMENT PROGRAMS, AND COMMEND THE PROGRESS MADE YOUR GOVERNMENT DURING 1983-86. HOWEVER, IT APPEARS THAT THE ADJUSTMENT EFFORTS OF THAT PERIOD HAVE NOW SLACKENED OR BEEN REVERSED, IN PARTICULAR IN THE AREA OF PUBLIC SECTOR EXPENDITURE AND REVENUE POLICY.

(B) MOREOVER, <sup>YOUR</sup> PUBLIC SECTOR INSTITUTIONS HAVE EXPERIENCED DIFFICULTY IN MEETING THEIR INTERNATIONAL DEBT SERVICING OBLIGATIONS SINCE LATE 1987. IN PARTICULAR, I AM DEEPLY WORRIED BY PANAMA'S FAILURE TO MEET SEVERAL CONTRACTUAL PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS. THESE INSTITUTIONS ARE THE MOST RELIABLE SOURCE OF FINANCE FOR ADJUSTMENT AND LONG-TERM DEVELOPMENT FOR COUNTRIES SUCH AS YOURS.

including THE WORLD BANK

(C) THE COSTS OF THIS SITUATION ARE ALREADY BECOMING APPARENT: ~~FOR INSTANCE THE INCURRENCE OF~~ ARREARS WITH THE WORLD BANK HAVE FORCED US UNDER OUR ~~LED TO THE SUSPENSION OF OUR DISBURSEMENTS FOR ONGOING~~ PANAMANIAN ESTABLISHED RULES DEVELOPMENT PROJECTS SINCE NOVEMBER 30, 1987. THE BANK AS A COOPERATIVE INSTITUTION ~~RELIES~~ <sup>DEPENDS</sup> FOR ITS ABILITY TO BORROW ON THE PREFERRED CREDITOR STATUS ACCORDED TO IT BY <sup>ITS</sup> MEMBER COUNTRIES, AND ARREARS TO THE BANK WEAKEN THE INSTITUTION AS A WHOLE AS WELL AS RESTRICTING ITS ABILITY TO HELP PANAMA. <sup>IN THE FINANCIAL MARKETS</sup>

(D) I SINCERELY HOPE THAT THESE ECONOMIC PROBLEMS ARE FACED SOONER RATHER THAN LATER, TO ALLOW PANAMA TO RETURN TO A PATH OF SUSTAINABLE GROWTH AND ECONOMIC DEVELOPMENT. REGARDS, BARBER

READY FOR

SIGNATURES:

TRANSMISSION: \_\_\_\_\_  
(Inputter's Initials)

DRAFTED BY: \_\_\_\_\_

TRANSMITTED BY: \_\_\_\_\_

AUTHORIZED BY: \_\_\_\_\_

DATE: \_\_\_\_\_

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**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W. (202) 477-1234  
Washington, D.C. 20433 Cable Address: INTBAFRAD  
U.S.A. Cable Address: INDEVAS

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February 10, 1988

Mrs. Daima Mbwayu  
Regional Secretary  
Women Union Organization of Tanzania  
P.O. Box 384  
Dodoma, Tanzania

Dear Mrs. Mbwayu:

Many thanks for your letter. Hearing from you brought back many pleasant and meaningful associations of my visit to Tanzania and Dodoma in particular. I would indeed be delighted to welcome you and your colleagues to Washington and continue the informative and useful dialogue we began in Tanzania. Unfortunately, the nature of World Bank operations, which primarily support projects undertaken by the Government of Tanzania, do not allow me to assist with any financial resources that might be required for your trip. Organizations such as UNDP or UNICEF which are involved with external training might be in a better position to help. I am sure that you are also in touch with these as well as other bilateral and non-governmental supporters of UWT. I do hope that you are able to locate resources for the trip and look forward to seeing you in Washington. In the meantime, please accept my warmest greetings and convey these to your colleagues as well.

Sincerely

(Signed) Barber B. Conable (Mrs.)

Charlotte Conable

cc: Messrs. Qureshi (SVPOP), Jaycox (AFRVP), Sandstrom (AF6DR)

RWGrawe:bt

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W. (202) 477-1234  
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February 10, 1988

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Regional Secretary  
Women Union Organization of Tanzania  
P.O. Box 384  
Dodoma, Tanzania

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Sincerely

Charlotte Conable

cc: Messrs. Qureshi (SVPOP), Jaycox (AFRVP), Sandstrom (AF6DR)

RWGrawe:bt

Mrs Daima Mwayu,  
Women Union Organization

P.O. Box 384,

DODOMA

November 26, 1987

Mrs. Barber Connable,  
World Bank,  
Washington DC, USA

Dear Madam,

It has been a long time now since you left us here in early February, 1987 after your cordial visit to our national capital for Tanzania, Dodoma.

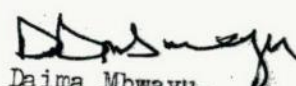
The main purpose of this letter is just to ask you kindly if you could grant us a short visit to Washington so that we can learn more about women activities that in turn, can help develop ours here in Dodoma as you can remember, we showed you some of them during your one day visit.

The proposed entourage if allowed, is a fourman delegation consists of myself Mrs, Daima Mwayu, the regional secretary for the Organization of Women (UWF).

Others are:- Honourable Getrude Mongella who is the Women Minister for Lands, Natural resources and Tourism. Mrs, Fatma Sadalla, the UWF Chairman and a Journalist Mr. Mussa Jama.

Please, let us hope that our request for the proposed trip is materialised and convey our best wishes and prospereous life to you and Mr. Barber Connable.

Yours,

  
Mrs, Daima Mwayu,



Dear Bill:

Thank you very much for sending me a copy of the English translation of Mr. Simonsen's article on the current situation in Brazil. It contains many interesting insights which, even though expressed in unconventional terms, I found stimulating. I also think it is a fine testimony to the Brazilian spirit of free debate that such an article appeared as the cover story in Veja Magazine.

Sincerely,

Mr. William R. Rhodes  
Chairman, Restructuring Committee  
Citibank, N.A.  
399 Park Avenue  
New York, New York 10043

Log No. 880202020  
cc: Messrs. Oureshi  
Husain  
Choksi, LAIDP

GTNankani:nev

Bank, N.A.  
Park Avenue  
New York, NY  
10043

**William R. Rhodes**  
Chairman  
Restructuring Committee

January 26, 1988

Mr. Barber Conable  
President  
The World Bank  
1818 H Street N.W.  
Washington, D.C. 20433

Dear Barber:

I am enclosing an English translation of Mario Simonsen's recent cover story in Veja Magazine in case you missed it. I think you will find it an impressive, and well written, appraisal of the situation in Brazil today.

Best regards,

*Bill*

encl.

February 9, 1988

Mr. Qureshi:

Re: Joint Bank-Fund Seminar with Donors on PFPs, February 8-9, 1988

The referenced seminar was quite useful. During the discussions a wide array of suggestions emerged regarding the possible enhancement of the PFP process for aid mobilization and coordination. The recipient countries' views were particularly important in drawing everybody's attention to the central role they should play in the process and its necessary and possible improvements.

The attached summaries presented by Mr. Dubey (to open the second day of the seminar) and Mr. Erb (to close the seminar) give a good account of the presentations and discussions at the seminar.

I would like to draw your attention to paras 6-8 of my summary where the PFP's relation to Bank operations is reflected and the most important (and feasible) suggestions regarding possible improvements are highlighted.



Vinod Dubey

Attachments

cc: Messrs. Vergin, Baudon, SVPOP.

Seminar on Policy Framework Papers and Aid Coordination  
in Low-Income Countries  
Washington, D.C., February 8-9, 1988

Summary of the Discussion on February 8  
presented by Vinod Dubey

1. Rather than presenting a detailed summary of the discussions on the first day of the seminar, this synopsis puts forward a few central propositions which emerged from the discussions and which may serve as the basis for further discussions during the second day.

Purpose and Uses of PFPs

2. There was a widely held view that PFPs essentially serve two fundamental purposes (in addition to their direct input into the SAF arrangements of the Fund):

- they play a central role in policy coordination at the country level (among different government entities), between the Fund and the Bank in attempting to reconcile macroeconomic/macrosfinancial policies (of a short- to medium-term nature) with growth-oriented policies of structural change (of a medium- to long-term nature), and between the government and other donors to avoid conflicting policy advice and duplicative operations; and
- they are important for rallying external support for a government's adjustment program in addition to Fund and Bank support. Several donors have strengthened the link between their country aid programs and the existence of Bank-Fund supported adjustment programs. The additionality of external support can be seen both in quantitative (additional financial resources) and qualitative terms (availability of quick-disbursing funds and better channelling of resources towards high-priority needs). Further additionality needs to be considered also in aggregate terms. The enhanced SAF and the support for the Bank's initiative for cofinancing adjustment programs in debt distressed countries of Sub-Saharan Africa are evidence of increased donor support for adjustment in low income countries.

These purposes and uses have important implications for the preparation and content of the PFPs as well as for their relationship to Bank lending and standard Bank documentation.

Government Involvement

3. There was agreement among all seminar participants that the PFP can only play a useful role if it is indeed a document with which the government of the recipient country fully identifies and to which it is

fully committed in order to be able to implement it effectively. This clearly requires greater initiative on the side of the recipient government in preparing the policy program and drafting the PFP, with the Fund and the Bank assuming more a support rather than lead role. The government would use the process to forge an internal consensus on the key policy issues and an adjustment program before requesting external support from different and diverse sources. This requires time consuming consultations and persuasion. It also means that an economically and financially sound program also has to be politically and socially feasible to maximize chances of success.

4. This fundamental (and generally accepted) requirement has some noteworthy implications and trade-offs. The process may be quite time-consuming and taxing for a country's often limited institutional capacity. There is also a premium on the timely preparation and implementation of a program to the extent that external support may be channelled to countries with programs in place at the expense of countries that are not able to present a cohesive policy package. An appropriate balance needs to be struck between developing a strong adjustment program and diluting it to get a timely consensus.

#### Donors' Involvement

5. There was a widely shared view that the PFP should not be seen just as a document but rather as a process to forge coordination and commitment in the recipient country and acceptance of and support for a government's program by external donors including the Bretton Woods institutions and other multilateral institutions.. It was generally agreed that this process would be greatly enhanced if key donors would be consulted at an early stage in an informal manner. There was broad support for this being done at the local level and perhaps with key donors only. Acceptance of the PFP process by donors and their support (in principle) of the thrust of policy reforms (with their macroeconomic, structural, and institutional dimensions) also requires certain changes in donor policies such as multi-year commitments of support for a medium term structural adjustment program and the provision of assistance in a manner consistent with the policy reforms being supported. For example the tying of aid procurement may be inconsistent with a policy reform instituting market allocation of foreign exchange. e.g. through Central Bank auctions. It may also have implications for the orientation of traditional project aid towards high priority sectors identified in the PFP.

#### Relation to Bank Operations

6. During the discussions it was stressed that an enhanced use of PFPs for aid mobilization and coordination did not only depend on greater recipient government involvement and commitment, but also on the optimization of the PFP's use in the Fund and the Bank. It was generally recognized that the PFP process resulted in better collaboration between the Fund and the Bank and some reconciliation of views on macro-financial and structural policies. Further improvements to provide greater flexibility in program design and the magnitude of required adjustment were encouraged by the participants.

7. While in the Fund the PFP is a prerequisite for a SAF (or in the future ESAF) arrangement, the immediate operational link in the Bank is less clear. This has partly to do with the fact that Bank adjustment lending existed before the establishment of the SAF and many early PFPs were actually built around existing Bank supported programs. However, even in the absence of an immediate and direct link to Bank operations, the PFP process has been instrumental in substantially increasing adjustment lending to countries with PFPs. Moreover, in several cases the PFP process has indeed led to the initiation of Bank adjustment lending.

8. There was a widely held view that the PFP would be more useful, particularly for donors, if it also provided a broad indication of the level and composition of future lending and a discussion of sectoral and investment priorities. Moreover, the Bank was encouraged to make more systematic use of PFPs in CG meetings and by explicitly taking PFPs into account in other documents such as CEMs or public expenditure/investment reviews (which could then also provide an assessment of actual program implementation). Public investment reviews should focus more on the priority sectors identified in the PFP and be placed within the macro framework presented in the PFP. There is scope for increased interaction between the PFP and PIP processes. When a specific operation is presented to the Board the documentation could indicate how it fitted into the adjustment framework provided by the PFP.

#### Content of PFPs

9. The enhanced use of PFPs by all parties involved has implications for the PFP content. There was emerging support for:

- sharpening the focus of PFPs on priority areas rather than trying to embrace all policy areas. This would underscore the country-specific nature of the PFP and add specificity in the areas covered while maintaining the framework character of the document and would make the policy matrix more useful (by giving a better sense of the priority and monitorability of specific actions);
- providing a longer-term perspective which would allow a more adequate treatment of structural issues (population, health and human resources; shifts in the structure of production) and an appropriate assessment of a country's debt servicing capacity;
- elaborating on the social dimensions of adjustments, discussing a country's specific efforts to protect vulnerable groups, and identifying specific needs for external support;
- establishing monitoring systems based on broad set of indicators including structural and longer term indicators (in addition to the traditional macroeconomic aggregates) to get a better understanding of the adjustment process;
- adding a (rudimentary) assessment of a country's institutional capacity to implement the agreed program and some discussion of the risks involved and the trade offs among different elements of the program; and finally

- providing additional information through annexes, e.g., on the assumptions underlying the projections of growth of production and exports or external financial requirements etc., and on the thrust of the public expenditure/investment program.

Concluding Remarks of Richard D. Erb

I hope you all agree that this has been a very useful meeting. For the Bank and the Fund, the discussions have provided an invaluable input to the further development of the PFP. This input is especially important at this critical juncture, when we are launching both the initiative for debt-distressed African countries and the enhanced SAF. We thank you very much. The Executive Boards of both the Bank and the Fund are scheduled shortly to review PFP-related issues. We will continue discussions among ourselves to ensure that we fully benefit from all of the thoughts and ideas that you have offered. Our Board papers for the review, which you will receive in due course, will draw extensively upon your ideas, and I am sure will be significantly better than would have been possible in the absence of this seminar.

It is neither necessary nor desirable to draw firm conclusions at this time. But, to help clarify our thoughts and make sure that we leave this room with a common understanding of where we stand, let me offer a few remarks on the main points that have emerged from our discussions.

There was consensus that the PFP has been quite effective in improving collaboration between the Bank and the Fund and in bringing together considerations relevant to long-term development issues and short-term policies.

There was also consensus that the PFP has significant potential for:



- avoiding conflicting policy advice to recipient countries and the duplication of aid efforts among donors;
- reducing the administrative burden on recipients;
- directing resources to most promising sectors, and to countries that can use them most productively;
- helping to forge an internal political consensus in the recipient country.

To realize this potential, much needs to be done.

#### Recipient countries

Both Dr. Botchwey and Mr. Syeduzzaman stressed that thus far, PFPs have tended to be too much a product of the Bank and the Fund, and it must be the recipient country that takes primary charge of drafting the PFP. This view was echoed by all donor representatives. It was suggested that:

- Bank/Fund missions could first discuss annotated outlines of a possible PFP with recipient governments;
- drafting of the PFP could then be initiated by recipient governments, with the Bank and Fund staffs available to provide whatever assistance might be required;
- sufficient time should be allowed to build consensus and political support within the country; and
- Bank/Fund missions could then return for discussions of a complete draft.

It is no doubt critical to make the PFP a document of the recipient country in a real sense. This has been our intention from the outset; however, it has to be recognized that:

- additional rounds of discussion may mean that it would take much longer to prepare the PFP (it was hinted that as long as two years might be necessary);
- such a process may require substantially more staff resources of the Bank and the Fund;
- we must keep in mind the inevitable trade-offs between the strength of adjustment programs and the amount and speediness of financial assistance.

How do we reconcile this potentially longer timeframe and the obvious need for rapid receipt of financial resources in recipient countries? This is an important question to which we will need to give careful, further thought.

Let me discuss now a few points that were raised regarding the content of PFPs. I do so in the context of the recipient countries' to emphasize that they are ultimately responsible for the document.

- There were some who argued for a fuller coverage of PFPs, including (a) long-term development issues such as population and health, (b) a detailed discussion of sectoral issues, and (c) fuller discussion of public investment programs.
- But, a majority favored, I believe, selectivity; policy reform efforts need to be prioritized.

- In the most important policy areas selected, the discussion in PFPs should be focused and frank and should include a clear timetable and sequencing of actions to be taken.
- There was consensus that all PFPs should include a discussion of the social impact of adjustment policies.
- Some have advocated wider use of annexes, e.g. for technical discussion of balance of payments projections.
- PFPs could provide "roadmaps" of what is available in other documents such as the Bank's Country Economic Memoranda or in Public Investment Programs for readers that are interested in more comprehensive discussion of certain issues.

#### Aid agencies

Representatives of donor countries stressed that if PFPs are to be used actively by them:

- PFPs must have the full commitment of the recipients;
- PFPs must be a key document for lending operations of the Fund and the Bank; and
- Donors must be involved in the preparation of the document.

Most of us would agree with Dr. Botchwey that formal involvement of aid agencies in negotiations would be undesirable and impractical. I also believe that Dr. Botchwey, Mr. Syeduzzaman and Governor Kotut would agree that donor involvement could be useful. We could explore the following ideas::

- There could be an informal discussion with donors at an early stage of preparation, perhaps, in the capitals of recipient

countries.

-- A few key donors could ve involved.

-- Discussions with a wider group could also be appropriate in Consultative Group meetings and Round Tables.

-- It would be easier to do this for second- and third-year PFPs as the existing papers would provide a basis for discussion; for first-year PFPs. A note outlining key elements could be discussed.

-- Again, we must be mindful of the implications of such discussions for the time required to complete the paper.

Once donors are involved, I think it is fair to ask aid agencies

to:

-- ensure that their aid operations are consistent with the policies advocated in the PFP. (Dr. Botchwey gave us a good example of an administrative allocation of aid resources that was incompatible with the market-oriented exchange rate policies described in the PFP); and

-- provide more explicit indications of their future aid operations.

#### Bank and Fund

I have already referred to a number of areas to which the Bank and the Fund have been called upon to give further consideration. In particular, we need to work toward:

-- even closer coordination between the Bank and the Fund with respect to positions on policy issues, balance of payments projections, and key assumptions.

- conducting missions in a way that allows more active involvement by recipients in preparation of PFPs; and
- improvements in the content of PFPs.

-- better delineation of the roles of CEMs; PIPs and other documents and improved interaction and consistency among the documents; and

- more systematic use of PFPs in CG meetings.

We, in the Bank and the Fund, will continue to discuss and reflect on your interventions. I hope that you, as representatives of the major aid agencies, will examine carefully how PFPs could be used more extensively and concretely in your operations. Finally, I hope that our discussions have brought home a key point, i.e., we are not just discussing a document; rather, we are discussing a process in which recipients, aid agencies, the Fund, and the Bank are all involved as partners in continuous efforts to bring about a higher standard of living in the poorest members of the international community.

# OFFICE MEMORANDUM

RECEIVED

DATE: February 8, 1988

88 FEB -9 AM 9:51

TO: Mr. Moeen A. Qureshi

25780

THROUGH: Mr. S. Shahid Husain

FROM: Rainer B. Steckhan, Director, LA2

*Handwritten signature: Steckhan*

EXTENSION: 61003

SUBJECT: PANAMA: Arrears Situation -- Interim Report

1. Disbursements to Panama have been suspended since November 30, 1987 when arrears of over 75 days were incurred. At that time the arrears were exclusively from state enterprises, in particular the power company (IRHE), water company (IDAAN) and port authority (APN). It was judged that their servicing difficulties resulted from a combination of management problems and the unwillingness of Government to assume servicing on their behalf before all other possibilities had been tried. Particular problems arose from labor disputes in IRHE during November and December.

2. Since that time, Panama has made some effort to clear its late payments to the Bank. As of February 4, 1988 Panama had arrears to the Bank of about \$9.8 million, up to 99 days overdue, down from the \$13.4 million outstanding when payments were suspended. This improvement is mainly due to a payment of \$3.7 million made by IRHE on January 22, clearing its longest arrears, namely those under loan 1470-1. IRHE is still responsible for the bulk of the arrears (\$6.3 million) but it is likely that they will make further substantial payments in the near future. IDAAN, the next largest source of arrears to the Bank, has set aside most or all of the \$2.1 million overdue. A Government commission has been named to investigate the feasibility of clearing all arrears, as a way of gaining access to Bank funds under existing projects.

3. However we are now highly concerned about the arrears the central government has incurred with other creditors. The IMF has informed the Country Operations Division in confidence that Panama has not repurchased SDR 9.8 million (\$13.3 million equivalent) due at the end of December, or paid SDR 6.4 million (\$8.7 million equivalent) of interest due on January 15. With a further small amount due at the end of January, total arrears to the IMF are SDR 16.5 million (\$22.4 million equivalent). The Inter-American Development Bank is owed about \$6 million, and since June 1987 Panama has paid neither interest nor principal on its Paris Club obligations, implying withholding of a similar amount from bilateral creditors. This is being treated by the USA at least as arrears. There

are also arrears of around \$10 million to various commercial banks. A mission which returned today found that all public sector debt servicing has been centralized in the National Bank, and that payments are being made contingent on the overall level of public sector liquidity after meeting domestic obligations. Servicing to the IBRD and IDB are being given priority, based on their possible disbursements.

4. These developments signal a new phase in Panama's relations with its external creditors, in which the internal political situation is affecting the country's willingness and ability to pay. Since Panama uses the US Dollar as its domestic currency, it does not face conventional foreign exchange problems. Rather debt servicing problems are a direct result of the public sector's fiscal difficulties. The underlying reason for the accumulation of central government arrears is a lack of liquidity resulting from:

- a) fiscal decisions during 1987, which pushed up non-interest recurrent expenditure by about 8%;
- b) the loss of deposits from the banking system during 1987;
- c) the rejection of government's draft Budget by the National Assembly in late December. The Ministry of Planning had proposed a 10% cut in government payrolls, and the Assembly was unable to accept this or find an alternative way to balance the Budget; and
- d) a severe shortage of uncommitted external financing for the public sector, due to the government's inability to conclude a standby with the IMF or to complete the SAL II program with the Bank.

5. The Government has recently resumed negotiations with the commercial banks aimed at new money and rescheduling arrangements, and has presented figures showing a financial gap of almost \$100 million in 1988. It has obtained a one-month extension on its rollover of commercial amortization, to the end of April. Panama plans to seek an IMF program and other international support in 1988, but these are unlikely to be feasible under present circumstances.

6. We judge the situation to be threatening, both to the Bank and to Panama's wider creditworthiness. In the short run, the government will find it difficult to meet servicing obligations of about \$15.6 million which fall due to the Bank on February 15. More serious difficulties are likely at the end of April when commercial debt interest obligations of about \$22 million postponed from September 1987 fall due. A rapid accumulation of arrears would establish a barrier to resuming normal financial relations with all outside creditors, and the failure to resolve the fiscal problem raises the possibility of a partial or total cessation of normal servicing. We have expressed our concerns to the Panamanian authorities repeatedly, including in intensive discussions with the

President of the Republic. We have also signalled our willingness to increase disbursements from existing loans (almost US\$100 million is undisbursed) wherever feasible in support of sound activities, once the arrears are cleared up. Moreover, we are continuing project preparation and technical assistance activities in response to Government priorities. We, therefore, hope there are sufficient incentives for the Government to become current. However, given recent political events major questions remain.

Paragraph 3. cleared in substance with IMF

cc: Messrs. Corbo, Varallay, Derbez, Laslett, LA2CO  
Halperin, LA2IE; Knotter, LA2TF; Binswanger, LA2AG;  
Martinez, LATIE; Lee, LA2DR  
Coutinho, Collell, LEGLA; Grothe, LOAEL

cc: LAC Files; LA2CO Black Book; LA2CO Chron

RLaslett/mds



**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

February 8, 1988

Mr. Guido Hanselmann  
Executive Vice President  
Union Bank of Switzerland  
Bahnhofstrasse 45  
Zurich, Switzerland

Dear Mr. Hanselmann:

Thank you for the letter that you and Mr. Huber sent following up on the discussions we had at the time of the World Bank Annual Meeting. We very much appreciate your thoughtful comments on what is required to sustain the debt restructuring process and to restore access by the heavily indebted countries to the private capital markets.

We certainly share your conviction that a sound macroeconomic framework and specific structural adjustment measures are a sine qua non of a successful return of these countries to more normal borrowing relationships. Without adjustment, growth will be inadequate, debt servicing capacity will not expand and the improvement in creditworthiness indicators will not take place. However, we are also keenly aware that the other two pillars of the international debt strategy are equally important: we must continue to have an open and expanding world economy, and we must continue to find ways of mobilizing additional resources to support investment and the growth process generally.

As you know, raising the necessary external financing has not been easy, notwithstanding the recognition by the major commercial banks such as yourselves that the burden of supporting troubled debtors must inevitably be a shared responsibility of all creditors concerned. For our part, we have made major changes in our lending programs in the heavily indebted countries, shifting to lending in support of adjustment programs and have substantially increased our net disbursements. Our own exposure relative to that of other creditors has increased sharply. We have done this voluntarily, without insisting on rigid adherence to formulas based on past shares of exposure.

We believe this approach is appropriate for a development institution such as ourselves. Mainly for burden-sharing reasons, however, we have taken a limited and targeted approach to the use of credit enhancement techniques (through guarantees and payments sharing arrangements) in these countries. Nonetheless, in all of the countries in which commercial bank new money packages have been assembled, we have sought to facilitate the new money process by our presence as a lender, by parallel cofinancings and where it has been clearly demonstrated to be necessary, by various credit enhancement tools. We continue to approach this issue on a case-by-case basis.

February 8, 1988

I note with interest your comments on project financing. It is vitally important that investment levels be restored in these countries, and we fully intend to continue to be a lender for specific projects first and foremost. But we believe the highest economic returns in the near term in many of these countries come from structural change, economic liberalization and removal of obstacles to efficiency and higher domestic savings rates. Thus, we have adapted our support to what we see as the most pressing needs of our client countries at this time.

Finally, we welcome your support for an expanded role for the World Bank in the area of new financial instruments and support for better risk management by developing countries. While the development of this role is somewhat constrained in the context of debt restructuring, we are actively exploring how we can support the emergence of new market-based financing techniques for our client countries. We fully welcome your support and cooperation in this area.

Again, thank you for your thoughtful comments.

Sincerely,

Barber B. Conable  
President

cc: Mr. Klaus Huber  
Senior Vice President  
Union Bank of Switzerland

bcc: Mr. M.A. Qureshi

DBock:mac



# Union Bank of Switzerland

Schweizerische Bankgesellschaft  
Union de Banques Suisses  
Unione di Banche Svizzere

Executive Board

Mr. Barber B. Conable  
President  
The World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433, U.S.A.

Zurich, December 14, 1987.

Dear Mr. Conable:

During this year's Annual Meeting of The World Bank you chaired a couple of meetings during which the topic of increased World Bank cooperation with the commercial banks was raised. We were encouraged to hear about the World Bank's intention to take on a larger role in the debt restructuring process which we all hope will eventually strengthen the heavily indebted countries' access to the capital markets. During these discussions you encouraged us to express our opinions in writing as to how from the commercial banks' view we could see an enhanced cooperation between the World Bank Group and commercial banks in this process.

Following that invitation our bank has put some of its thoughts on the subject matter to paper, which you will find summarized in the attached memorandum. We will be delighted to continue the dialogue which we have had with a number of World Bank officials on this and other issues at your convenience.

With best regards,

sincerely yours,  
Union Bank of Switzerland

G. Hanselmann	K. Huber
Executive	Senior
Vice President	Vice President

Encl.

# COMMERCIAL BANK COOPERATION WITH WORLD BANK GROUP - A SWISS BANK'S POINT OF VIEW

## 1. Introduction

During this Year's Annual Meeting of the World Bank several meetings took place between representatives of the IBRD and commercial banks to discuss ways to enhance cooperation. Mr. Conable, on various occasions invited the commercial banks to express their views on the subject in writing. This memorandum summarizes the views held by our institution as to how the World Bank could help increase capital flows towards the heavily indebted LDC's from commercial banks and other sources in support of the debt management process.

Even before the stock market crash, commercial banks have become increasingly reluctant to play the role of "lender of last resort" to the heavily indebted countries. "Lending fatigue" has set in as commercial bank management, shareholders, depositors have become increasingly disillusioned by the slow progress, if any, of the corrective actions taken by borrowers to return to creditworthiness and thus achieve the goal of return to voluntary access to capital markets. The reasons are many and well known. Some are within control of the LDC's and some are not. Bank Regulatory bodies are taking an ever tougher stance regarding reserves to be set against LDC exposure. Together with the deep discounts prevailing in the market place for most LDC assets, there remains little, if any, incentive to continue lending on a voluntary basis. And yet, we all know that the longer term return to growth and a more manageable debt situation of the developing world depends on new capital infusion.

While there are obviously many pieces to help solve this puzzle, including more official flows, export credits, lending by the international institutions, this memorandum focuses only on **actions to be taken by the World Bank Group which would enhance voluntary commercial bank flows.**

The following ideas start from the premise, that without increased **comfort** provided to commercial banks there will be no new voluntary lending. Comfort could come from two areas: providing **senior or preferred status to new lenders** (possibly in the form of **securitized instruments**) and/or **credit enhancement** by undertakings from multilateral institutions such as the World Bank. Moreover, the mechanism for raising new money for the debt management process have to become more flexible and adapted to the fundamentally different objectives, needs and diagnosis among today's creditor banks. Thus the need for following a **menu** approach in designing new money packages which includes instruments for those banks which want to remain as lenders and for those who want to get out, the latter obviously at an appropriate price. In this regard we refer to William Clines recent publication:

"Mobilizing Bank Lending to Debtor Countries", Institute for International Economics.

## 2. Areas of Cooperation IBRD with Commercial Banks

### 2.1 Policy Dialogue and Conditionality

Commercial banks support the World Bank's dialogue with heavily indebted borrowers regarding structural adjustment and development policies combined with strict enforcement of conditionality as a sine qua non for new money packages. We therefore are most encouraged that the World Bank plans to take a much more active role in the debt management process. Providing a sound macro and sector policy framework is absolutely essential to help the heavily indebted countries on their difficult road to gaining access to capital markets again. This role, for obvious reasons, cannot be played by the commercial banks but provides the only real "protection" for creditors by restoring the debtors ability to pay.

### 2.2 Traditional World Bank Project Lending Cooperation With Commercial Banks

To begin with, we feel that **project lending** should continue to absorb the bulk of new IBRD lending thereby providing a solid base for cooperation with commercial banks in the form of **cofinancing**. Of course, this is not to negate the obvious need and benefits of Structural Adjustment Loans, particularly in connection with the above referenced policy dialogue in support of growth and debt management policies. Project lending is important for commercial banks as it allows them to accompany <sup>their</sup> key clients in their new business ventures in LDCs assuring efficient use of scarce resources and minimizing lender risk (through offshore escrows, various sponsor project support and asset security).

In today's environment, commercial bank in most cases will **not** undertake such financing without the presence of the World Bank or IFC as a co-lender in the project through the proven **cofinancing** techniques. The benefits to us are well known and need no elaboration: project quality, supervision, comfort from B-Loan features etc.).

However, IBRD **project selection** and **procurement procedures** have often been a stumbling block to a more active use of this instrument. More flexibility would be welcomed from the part of the World Bank by for instance accepting projects which are brought forward by commercial bank clients, of course subject to the stringent World Bank policy criteria. This could substantially increase commercial bank flows to LDCs.

Moreover, the **B-Loan structure** may not provide the ideal "protection" for commercial banks regarding rescheduling risk. In

this respect the **IFC B-Loan** structure has a clear advantage in that commercial banks as participants in an IFC loan benefit directly from the preferred creditor status of IFC. To date, to our knowledge, no IFC loans have been rescheduled due to transfer risk reasons. In our view, the World Bank should consider as an alternative or complement to its present cofinancing instruments this IFC structure.

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### 2.3 World Bank Credit Enhancement

Comparable to the credit enhancement techniques successfully applied in securitized lending transactions for instance in asset-backed financing in North America (mortgage, credit card, car loan, trade receivables), there is a case for selective **credit enhancement by the World Bank** in commercial bank loans, securitized instruments or even debt-equity swaps of LDC borrowers. Since there are obvious limits to the extent of which the World Bank can use its guarantee capacity, the instrument has to be used selectively and imaginatively to assure maximum leverage. IBRD credit enhancement could be used more actively in the form of partial guarantees for **new** lending (loans or securitized instruments) in debt rescheduling packages, fall-away guarantees (standby L/Cs) in debt-equity swaps, and put options for commercial bank purchase of IBRD loans (for limited periods, e.g. during disbursement).

### 2.4 Interest and Currency Risk Management

One of the greatest vulnerabilities of debtor countries lies in a renewed upturn of interest rates. Commercial banks have helped in the past to mitigate both currency and interest risks by offering fixed interest options and currency swaps to LDC borrowers. But more needs to be done in this area. The World Bank could play an important intermediary role given its role in the swap market. Selective provision of **swap cofinancing** and **swap guarantees** should be considered.

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

BARBER B. CONABLE  
President

February 8, 1988

Dear Mr. N'Diaye:

Thank you so much for your letter of January 25 extending me an invitation to speak at the conference on Africa's external debt that you are organizing in London on April 18-19, 1988.

Unfortunately, I am unable to travel to Europe on these dates and must regretfully decline. However, given the importance of the issues to be discussed, I have asked Mr. Qureshi to represent the Bank and address the conference during the morning session on April 19. He is in a position to share with you and the other participants our current thinking on the evolution of the debt crisis in Africa and the actions needed to bring the continent back on the path to renewed growth and creditworthiness.

Please accept my best wishes for a successful conference.

Sincerely,

Mr. Babacar N'Diaye  
President  
African Development Bank  
01 B.P. 1387 Abidjan 01  
Cote D'Ivoire

TBaudon:vm

BANQUE AFRICAINE DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK



ADRESSE TÉLÉGRAPHIQUE  
AFDEV ABIDJAN  
TÉLÉPHONE 22-07-11  
TELEX 22717  
22498  
22263  
01 B. P. 1387 ABIDJAN 01  
COTE D'IVOIRE

PRESIDENT

REFERENCE

DATE 25/1/88

Mr. Barber Conable,  
President,  
The World Bank,  
1818 H Street, N.W.,  
Washington, D.C. 20433  
U.S.A.

Dear Mr. Conable,

As you are aware, one of the greatest problems confronting African countries today is the debt crisis, which continues to afflict one country after another. The gravity of the matter was indeed recently underscored by the Special Session of the Heads of State and Government of the Organization of African Unity which was held in Addis Ababa from 30 November to 1 December, 1987 to discuss the African Debt Problem. I had the privilege to address the Summit on this important subject, and you may wish to know that our Bank advanced a proposal outlining a strategy for assisting regional member countries to address the debt problem.

Some of the measures envisaged by our institutions to address the debt problem were outlined in my address to the Boards of Governors during the last Annual Meetings of the Bank and the Fund which was held in Cairo, Egypt, last June. One of the initiatives proposed was for the Bank to organize a Conference on African External Debt with the object of further informing African countries and the international creditor community about the debt crisis. It is in this context that the Bank is proposing to hold a Conference on the theme: 'The Challenge to Recovery and Growth: Finding Solutions to Africa's External Debt Problem'. The Conference will be held in London, at the Hotel Inter-Continental on 18th and 19th April, 1988. This Conference is being organized jointly with the Financial Times of London, who have already sent you an invitation to the Conference.

I am writing to cordially invite you to this same Conference. I am also pleased to inform you that you have been earmarked to be one of the few distinguished speakers expected to address the Conference in your individual capacity. As indicated in the attached Conference Programme, you have been programmed to address the Conference on the topic: 'Actions for the Long Term' during the morning session on 19th April, 1988.



BANQUE AFRICAINE DE DÉVELOPPMENT

AFRICAN DEVELOPMENT BANK

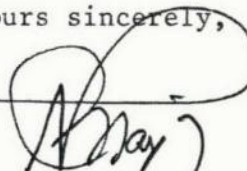
PRESIDENT

- 2 -

I am certain that your extensive knowledge and exposure to African economic development problems will introduce new insights towards responding to the challenge of recovery and growth in Africa.

I am looking forward to hearing from you. I should then be able to send you further details on the arrangements for the Conference.

Yours sincerely,



A handwritten signature in black ink, appearing to read 'Babacar N. Diaye', is written over a horizontal line. The signature is stylized and cursive.

Babacar N. DIAYE

TENTATIVE CONFERENCE PROGRAMME

THE CHALLENGE TO RECOVERY AND GROWTH: FINDING  
SOLUTIONS TO AFRICA'S EXTERNAL DEBT PROBLEM

Hotel Inter-Continental, London  
18 & 19 April, 1988

CHAIRMAN: The Rt. Hon. Christopher Patten, MP  
Minister for Overseas Development  
The Overseas Development Administration

KEYNOTE ADDRESS - AFRICA'S EXTERNAL INDEBTEDNESS: NATURE, CAUSES  
AND THE ROLES OF NATIONAL GOVERNMENTS AND THE INTERNATIONAL  
COMMUNITY IN SEEKING SOLUTIONS

Mr. Babacar N'Diaye  
President  
African Development Bank Group

MORNING SESSION - DIAGNOSIS AND OTHER PERSPECTIVES ON AFRICA'S DEBT  
PROBLEM

AN IMF APPRAISAL OF THE AFRICAN DEBT PROBLEM

M. Jean-Michel Camdessus  
Managing Director  
International Monetary Fund

OTHER SPEAKERS

Mr. Seri Gnoleba  
Minister of State  
Cote d'Ivoire

Mr. L. Mwananshiku  
Minister of Foreign Affairs of Zambia

Citoyen Kinzonzi Mvutukidi Ngindu K.  
Minister of Finance of Zaire

LUNCH GUEST SPEAKER

The Rt. Hon. Nigel Lawson,, MP  
Chancellor of the Exchequer, UK

Day One Continued

AFTERNOON SESSION - AFRICA'S DEBT PREDICAMENT - KEY ISSUES IN  
SEEKING SOLUTIONS

Dr. Irving Friedman  
Washington

FORUM: SHORT AND MEDIUM TERM APPROACHES AND MEASURES TO SOLVING  
AFRICA'S DEBT PROBLEM

Mr. Alhaji Ahmed  
Governor  
Central Bank of Nigeria

Mr. Casimir Oye-Mba  
Governor  
Banque des Etats d'Afrique Centrale

M. Claude Cheysson  
Member of Commission  
Commission of the European Communities

Mr. P. Ndegwa  
Governor (former)  
Central Bank of Kenya

DAY TWO

CHAIRMAN: Sala El Din Hamad  
Chairman, Board of Governors  
African Development Bank  
Governor, Central Bank of Egypt

MORNING SESSION

## ACTIONS FOR THE LONG TERM

Mr. Barber Conable  
president  
The World bank

## FORUM: PRACTICAL MEASURES WHICH CAN BE TAKEN BY BILATERAL DONOR COUNTRIES

## - USA

The Honorable  
Mr. Peter McPherson  
Deputy Secretary of the Treasury

## - FRANCE

Mr. Jean-Claude Trichet  
Chairman, Paris Club  
Direction du Tresor

## - GERMANY

Mr. Hans Klein  
Minister for Economic Cooperation  
Ministry for Economic Cooperation, Federal Republic of Germany

## LUNCH GUEST SPEAKER

Mr. Bernard Chidzero  
Minister of Finance, Economic Planning & Development  
Ministry of Finance, Zimbabwe

AFTERNOON SESSION

## APPROACHES TO SOLUTIONS: VIEWPOINTS OF COMMERCIAL BANKS

Mr. John S. Reed  
Chairman  
Citibank NA, USA

Day Two Continued

Mr. David Suratgar  
Director  
Morgan Grenfell & Company Limited

Mr. Claude Pierre Brosselette  
Bank Worms, France

CONCLUSIONS

Mr. M. Toure  
Minister of Finance & Economic Affairs  
Senegal

February 8, 1988

Dear Mr. Grant,

The very kind remarks in your letter of January 16, 1988 regarding the PAMSCAD initiative in Ghana were most appreciated by myself as well as the staff who contributed to the design of this program. Your pledge of continued support during the implementation of PAMSCAD will be a key factor in helping the program achieve its goals and I know that my staff look forward to continued cooperation in the field with UNICEF staff.

Indeed, I support wholeheartedly further operational collaboration between our institutions. Such collaboration is currently exemplified in Guinea where UNICEF Resident Staff are actively working with Bank staff to implement the Social Dimensions of Adjustment (SDA) Project in that country. As I am sure you are aware, the SDA Project, with a mandate that covers Sub-Saharan Africa, embodies the philosophy that social components should be incorporated in structural adjustment operations from the very start of such programmes. As such, the implementation of this project and all the new adjustment operations that we are now preparing, build upon the experience gained from the specific components to protect vulnerable groups in earlier structural adjustment loans, such as those in Guinea and Senegal. More complete designs can be found in the recent SALS approved by the Board last year such as Guinea-Bissau, and Sao Tomé and Príncipe.

I would very much hope that UNICEF's experience can be added to ours, leading to even better designs for the next generation of structural adjustment programmes, particularly in Sub-Saharan Africa where the need to safeguard access of the poor to social services is especially urgent.

I have encouraged my staff to actively work with UNICEF in the design and implementation of structural adjustment programmes. I know that at the senior levels, Mr. Jolly is already in frequent contact with Messrs. Serageldin, Isenman and others. Our joint efforts could make an immense difference to the poor and disadvantaged in countries which engage in very courageous efforts to restructure their economies.

Sincerely,

Barber B. Conable

Mr. James P. Grant  
Executive Director  
United Nations Children's Fund  
3 United Nations Plaza  
New York, NY 10017

CGrootaert:jpw

cc: Messrs. Jaycox (o/r), Serageldin (o/r), M. Noel (o/r)



United Nations Children's Fund  
Fonds des Nations Unies pour l'enfance  
Fondo de las Naciones Unidas para la Infancia

3 United Nations Plaza  
New York, New York 10017  
212 326-7000  
Telex: 175989

16th January, 1988

*Barber*  
Dear Mr. Conable,

May I congratulate you and the Bank for your splendid effort in leading the interagency team and task force which produced with the Ghana Government the PAMSCAD programme of Actions to Mitigate the Social Costs of Adjustment. To us in UNICEF, this is a pioneering effort of major significance, since it shows in basic practical terms how programmes of economic adjustment can include measures to protect vulnerable groups, to generate employment while encouraging redeployment of labour from over-manned sectors and to rehabilitate and strengthen the social sectors, focused on meeting basic needs. All this, as the Ghana Government recognises, should also help sustain the basic economic adjustment programme and avoid "perpetual pain bearing to be the core characteristic of the process of adjustment".

We in UNICEF see enormous significance in this document and will be doing all we can to support in Ghana the implementation of the programmes it proposes. In addition, we will be seeking to draw wider attention to the PAMSCAD document and programme as an example of what can be done on the human side to complement the more economic elements of adjustment programmes. The fact that it emerged from an interagency effort lead by the World Bank to us is also an example of the type of partnership and approach which we feel is needed to make a significant contribution to developing parallel programmes elsewhere.

Mr. Barber W. Conable,  
President,  
The World Bank,  
1818 H Street N.W.,  
Washington, DC 20433



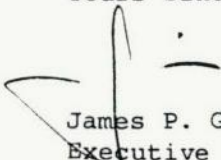
United Nations Children's Fund  
Fonds des Nations Unies pour l'enfance  
Fondo de las Naciones Unidas para la Infancia

3 United Nations Plaza  
New York, New York 10017  
212 326-7000  
Telex: 175989

May I make one other point? In the case of Ghana, the PAMSCAD programme has been planned and introduced several years after the commencement of the stabilization and structural adjustment programmes. In UNICEF's view, it is important that these responses to human need be planned and introduced as part of the structural adjustment programmes from the beginning, not at the third or fourth stage. I think this is now often recognized in the World Bank as desirable, but it is still far from being the general practice. Now that we have a PAMSCAD model, I would ask you to explore how this element can be made part of every adjustment programme.

May I end by congratulating in particular those of your staff who have played a part in developing these ideas and this programme and helping to bring it to fruition. If actively pursued in Ghana and more widely in other countries undertaking adjustment programmes, this pioneering effort could, I believe, change the whole perspective within which adjustment is conceived, seen and judged.

Yours sincerely,



James P. Grant  
Executive Director



# OFFICE MEMORANDUM

DATE: February 5, 1988

TO: Mr. Barber B. Conable

THROUGH: Mr. Mr. Moeen A. Qureshi 216

FROM: S. Shahid Husain

EXTENSION: 69001

SUBJECT: Seminar on Investment in Latin America and the Caribbean

Attached please find for your signature a batch of 15 letters of invitation for the seminar on international investment in Latin America and the Caribbean. The list of names was prepared in coordination with Mr. Keating. Another set of letters will be prepared next week in order to complete the number of participants.

Letters to :

- 1) Sir Ian MacGregor  
Lazard Freres  
New York
- 2) Mr. William J. McDonough  
Vice Chairman of the Board  
First National Bank of Chicago
- 3) Dr. G. A. Keyworth, II  
Chairman  
Keyworth Company  
Washington D.C.
- 4) Mr. John J. Murphy  
Chairman, President and Chief  
Executive Officer  
Dresser Industris, Inc.  
Dallas, Texas
- 5) Mr. Randolph N. Reynolds  
President and Chief Executive Officer  
Reynolds International Inc.  
Richard  
Va. 23261
- 6) Mr. Pierre Cote  
Chairman  
Canada Development Corporation  
Toronto, Canada
- 7) Dr. Dieter Spethmann  
Chairman of the Executive Board  
Thyssen AG  
West Germany
- 8) Herr. J. A. Henle  
Chairman of the Executive Management  
Klockner and Co.  
Klocknerhaus, Neudorfer Str. 3-5  
4100 Duisberg  
West Germany
- 9) Mr. Raymond Levy  
President  
Regie Nationale des Usines Renault  
France
- 10) Prof. Ramano Prodi  
President  
IRI  
Rome  
Italy
- 11) Mr. Denys H. Henerson  
Chairman  
Imperial Chemical Industries PLC  
London, England
- 12) Mr. Eishiro Saito  
Keidanren  
Tokyo  
Japan
- 13) Mr. Pehr Gellenhammar, Esq  
Volvo (AB)  
Gothenburg  
Sweden
- 14) Viscomte Etienne Davignon  
Societe Generale de Belgique SA  
Bruxelles  
Belgium
- 15) Mr. C.J. van der Klugt Esq  
Vice Chairman and Vice President  
of Board of Management  
Philips' Lamps Holding (NV)  
Geemeenschappelijk Bezit Van  
Aandeelen  
Eindhoven  
Netherlands

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

BARBER B. CONABLE  
President

February 5, 1988

Sir Ian:

The World Bank will host a seminar at its Headquarters in Washington, D.C., April 12-13, 1988 to discuss international investments in Latin America and the Caribbean. We would welcome your participation in this important dialogue.

The seminar will focus on the region's overall economic situation and its prospects for growth and recovery. We will explain the Bank's role in the region, particularly our efforts to assist the countries in their adjustment process and help them restore their creditworthiness. As you know, over the past years the Bank has been the main source of net resources for the highly indebted middle-income countries. We also will review the Bank's role in facilitating the restoration of access to private capital markets by the Latin American and Caribbean countries. Time will be set aside for participants to discuss, in depth, their concerns and interests in individual countries as well.

I feel it is necessary, at this point, to facilitate private investments in the major countries of the region in order to accelerate their recovery process. Representatives of the International Finance Corporation, the Bank's affiliate which promotes private investments in the developing countries will share their experiences in equity investments and loans to the private sector in individual countries.

Attached please find an agenda for the seminar. Additional information will be provided in advance of the meeting.

I hope you can fit this date into your busy schedule. I am confident the seminar will be useful both to you and to the Bank.

Sincerely,

Sir Ian MacGregor  
Limited Partner  
Lazard Frères  
One Rockefeller Plaza  
New York, N.Y. 10020

INTERNATIONAL INVESTMENT IN  
LATIN AMERICA AND THE CARIBBEAN

The World Bank  
April 12 and 13, 1988

Preliminary Agenda

**April 12th**

- 6:30 p.m. Cocktails
- 7:00 p.m. Dinner - Welcoming Remarks by Barber B. Conable

**April 13th**  
**Room A-1100**

- 8:15 a.m. Breakfast
- 9:00 a.m. **World Bank Policy and Approach Towards Private Sector Developments:** Moeen A. Qureshi, Senior Vice President, Operations
- 9:15 a.m. **Economic Situation and Prospects in the Latin America and Caribbean Region:** S. Shahid Husain, Vice President, Latin America and Caribbean Region
- 9:45 a.m. **Debt Conversions, Securitization, WB Guarantees, Cofinancing and Credit Enhancement:** David R. Bock, Director, Debt Management and Financial Services Department
- 10:15 a.m. Coffee Break
- 10:30 a.m. **The Prospects for Private Investments in Latin America and the Caribbean Countries:** Mr. Judhvir Parmar, Vice President, Investment Operations, IFC
- 11:00 a.m. **IFC Operations, Debt Equity Swaps, GRIP, MIGA:** Helmut Paul, Director, Department of Investments, Latin America and Caribbean I  
Guillermo Schultz, Director, Department of Investments, Latin America and Caribbean II
- 11:30 a.m. Discussions
- 1:00 p.m. Lunch - Closing Remarks by Barber B. Conable  
"D" Bldg. Executive Dining Room

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

BARBER B. CONABLE  
President

February 4, 1988

Dear Mr. Veress:

I wish to thank you for your letter of December 17, 1987, informing me of the establishment of a new Ministry of Trade, by merging the former Ministries of Foreign Trade and Home Trade, and headed by Mr. Marjai, Deputy Prime Minister. I trust this reorganization would help the Government to realize its objectives of streamlining the trading operations and improve the external balance.

Permit me to reciprocate your good wishes for a happy new year and success in your responsibilities. I share your hope that we would have an opportunity to meet in the not too distant future.

Sincerely,

(Signed) Barber B. Conable

Mr. Peter Veress  
Ministry of Trade  
Honved u. 13/15  
1880 Budapest  
Hungary

bcc: Mr. de Groote (EDs)  
cc: Office of the President  
Messrs. ✓ Qureshi (SVPOP)  
Thalwitz (EMNVP)  
Lari, Nouvel, Harrison (EM4)

VNRajagopalan:ap



HUNGARIAN PEOPLE'S REPUBLIC  
MINISTER OF FOREIGN TRADE

Mr. Barber Conable  
President  
The World Bank  
1818 H Street, N.W.  
Washington DC U.S.A.  
20433

Budapest, December "17" 1987

Mr. President,

You may be aware that in the framework of the economic restructuring taking place in Hungary, a new Ministry of Trade has been established by the Parliament. The new ministry, merging the responsibilities of the former ministries, Ministry of Foreign Trade and Ministry of Home Trade, is headed by Deputy Prime Minister Mr. József Marjai.

As a result of this reorganization I was assigned new responsibilities.

It has been a real honour to make your acquaintance and our short meeting has left me with the most favourable impressions.

Mr. President, allow me to wish you further success and happiness both in your official activities and in private life. I can only hope that our relationship does not come to an end for good and we will have an opportunity to meet in the future.

I avail myself of this opportunity as well to wish you a Happy New Year.

Yours sincerely,

# OFFICE MEMORANDUM

DATE: February 4, 1988

TO: Mr. Barber B. Conable, President  
THROUGH: Mr. Moeen Qureshi, Senior Vice President, SVPOP  
FROM: Caio Koch-Weser, Acting *AKW* Vice President, Africa

EXTENSION: 34858

SUBJECT: Liberia: Visit of Delegation

1. You will recall that Ambassador Emmett Harman during his discussion with you on Wednesday, February 4 expressed his wish to carry back a letter to President Doe.
2. During staff discussions with the delegation, both in the Bank and the Fund, the main emphasis has been upon improved revenue collection and the elimination of unbudgeted expenditures. The delegation has indicated that they would welcome a reference to this in the letter to President Doe in order to reinforce their efforts to put the financial house in order.
3. It remains to be seen whether the government is serious in its resolve and the evidence of the next few months should demonstrate this. We do not expect to resume any major mission activity until we see evidence of improved fiscal performance which is an essential first step towards a more comprehensive program.
4. It is apparent that the Bank's decision to close the resident mission and nine ongoing projects late last year has been a factor in making President Doe realize that his government needs to come to grips with the economic situation. We do not propose to consider the reopening of the resident mission in the near future.
5. We hope you will find the attached letter appropriate.

*J* RFennell:gjc  
RF#1/a:visit

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

BARBER B. CONABLE  
President

February 4, 1988

His Excellency Samuel Kanyon Doe  
President, Republic of Liberia  
Monrovia, Liberia

Mr. President,

Thank you for your letter of January 26, which Ambassador Harman gave me when I met with your delegation. I was encouraged to learn that the Government of Liberia has embarked on measures aimed at improving the financial position of the public sector. I noted, in your letter as well as in the delegation's statement, that you intend to strengthen financial discipline. I believe this is a fundamental first step towards economic recovery.

As we have emphasized in our discussions with your delegation the most important initial policy changes are substantially improved revenue collection and the elimination of all unbudgeted expenditures. A sound budget is an essential instrument for managing an economy with constrained resources. Evidence of positive improvements in the fiscal situation in the next several months would provide an appropriate basis for continuing our discussions with your advisors on a wider range of policy reform.

We were encouraged to hear that the work of the OPEX Specialists is already proving useful in the area of budgetary control. From the discussions we have had with your advisors we believe it would be desirable for the team to assist the government in determining the assets and liabilities of the Liberian Petroleum Refinery Corporation (LPRC), so that the government can be well placed to negotiate the proposed privatization.

The Bank, and many others who have the welfare of your people at heart, has observed the long standing imbalances in the economy to which you refer in your letter. We are pleased to learn, Mr. President, that you personally are concerned to remedy the situation. The process of economic recovery is a long one. It requires a series of tough decisions, many of which only a head of state can make.

In recent months the international donor community has made available increased resources to debt-distressed countries in Sub-Saharan Africa through the IMF's Enhanced Structural Adjustment Facility and the World Bank Debt Initiative. But even these resources are inadequate to meet all the needs. Consequently, those countries which show the most determination to address the restructuring of their economies must have the first claim to such resources. We hope that Liberia in the coming year will implement strong fiscal measures and be able to develop a comprehensive recovery program which would give it access to these funds.



The visit of your delegation provided a useful opportunity to maintain a dialogue which, I believe, will assist your government in developing such a program. We regret that the Bank is not in a position at the moment to reestablish a resident mission in Liberia though we do not preclude that possibility at an appropriate time in the future.

Let me reassure you, Mr. President, that we are anxious to maintain a cordial and positive relationship with your government and we trust that this will contribute to a rehabilitation of the economy that will improve the welfare of every Liberian citizen.

With best regards,

Sincerely yours,

(Signed) Barber B. Conable

Barber B. Conable  
President

Copy to Mr. Jembere  
Executive Director

cc: Messrs. Qureshi, Jaycox, Koch-Weser, Humphrey, Squire, Fennell  
Ramirez, Silvera, Addison, Draper, Hamann, Nkwanga  
Pankaj, Srinivasan

RFennell:gjc  
RF/la:pres



THE EXECUTIVE MANSION  
OFFICE OF THE PRESIDENT  
MONROVIA, LIBERIA

January 26, 1988

Mr. President:

In line with my recent telex message to you, let me take this opportunity to reaffirm the vital importance that my Government attaches to the preservation of normal relations between Liberia and the World Bank, including retention of the World Bank resident representative office in Liberia. Unfortunately, this relationship has recently suffered from certain operational difficulties, thereby giving a misleading impression about the significance attached to World Bank-related matters by the Liberian Government.

In recognition of the urgent need to restore satisfactory growth in the Liberian economy and to strengthen the financial position of the public sector, the Liberian Government has already embarked on a number of strong and courageous measures, including the collection of taxes through the banking system, in the reinforcement of tax administration, simplification of the import tariff system, a clamp-down on financial irregularities, and steps aimed at tightening expenditure controls.

These efforts have begun to yield encouraging results, especially on the revenue side; but it is fully recognized that much remains to be done to correct long-standing imbalances in the Liberian Economy.

Mr. Barber Conable  
President  
World Bank  
Washington, DC 20433  
United States of America



THE EXECUTIVE MANSION  
OFFICE OF THE PRESIDENT  
MONROVIA, LIBERIA

2

As you know, it is with a view to achieving further decisive gains in our economic growth and financial adjustment efforts that we recently enlisted the services of operational experts (OPEX) made available under a technical assistance program financed by the United States Government.

At this important juncture, you will, I am sure, readily appreciate our concern to remain in close contact with an important financial institution like the World Bank and to continue to avail ourselves of whatever facilities may be available to us from your organizations, including a resident representative office and related technical assistance. Unfortunately, due to limited resources, our ability to service our financial obligations to the World Bank has fallen substantially behind schedule. Our expectation is that working together with the OPEX team and your experts, we will be financially capable to begin to make regular good-faith payments to the World Bank, beginning with the new fiscal year starting in January 1988. The delegation headed by my Personal Representative, His Excellency Ambassador Emmett Harmon, which I am sending with this letter will be discussing with you and your staff the timing and other necessary details of renewed close collaboration between our two sides in the years ahead.

It is my hope that this high-level delegation as well as their message will be favourably received.

With personal best wishes,

Faithfully yours,

  
Samuel Kanyon Doe  
PRESIDENT

FORM NO. 75  
(9-78)

THE WORLD BANK

ROUTING SLIP		Date:
		February 2
Name	Room No.	
Mr. Conable <i>OK BAE</i>	E-1227	
(through Mr. Oureshi) <i>MAD with the change</i>	E-1241	
(through Mr. Bouhaouala) <i>[Signature]</i>	H-8065	
Appropriate Disposition	Note and Return	
Approval	Note and Send On	
Clearance	Per our Conversation	
Comment	Per your Request	
For Action	Prepare Reply	
Information	Recommendation	
Initial	Signature	
Note and File	URGENT	
REMARKS:		
<p><i>Mr. Lemesle</i>: Re: <u>ROMANIA</u></p> <p>Please find attached draft cable from Mr. Conable to the Minister of Finance.</p> <p><i>I understand Mr. Conable would like to sign this cable today. Could you call me on a related matter? Lemesle</i></p>		
From:	Room No.:	Extension:
<i>E. E. Lari</i>	H11-071	32552

FORM NO. 75  
(9-78)

THE WORLD BANK

ROUTING SLIP		Date:
		February 2
Name	Room No.	
Mr. Conable	E-1227	
(through Mr. Qureshi)	E-1241	
(through Mr. Bouhaouala)	H-8065	
Appropriate Disposition	Note and Return	
Approval	Note and Send On	
Clearance	Per our Conversation	
Comment	Per your Request	
For Action	Prepare Reply	
Information	Recommendation	
Initial	Signature	
Note and File	URGENT	
REMARKS:		
<p>Mr. Conable: Re: <u>ROMANIA</u></p> <p>Please find attached draft cable from Mr. Conable to the Minister of Finance.</p> <p>I understand Mr. Conable would like to sign this cable today. Could you call me on a related matter? Leri</p>		
From:	Room No.:	Extension:
E. E. Lari	H11-071	32552

WDIAL  
.EM4CO  
OINFO

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-SUBJECT: ROMANIA - SERVICE PAYMENTS  
-DRAFTED BY: PNouvel:mh Doc. No: 2600G EXT: 32550  
-AUTHORIZED BY: B. Conable  
-CLEARED WITH AND CC: Messrs. J. Wood, Lari, Hoopengardner,  
-Siegelbaum  
-CC: Messrs. Stern, Thalwitz, Shihata, Roth, Eccles, Vergin,  
-Harrison, Kwaku  
-BCC: Mr. Arlman

---

864 11239 =

-HE GHEORGHE PARASCHIV  
-MINISTER OF FINANCE  
-BUCHAREST, ROMANIA

BT

WASHINGTON, D.C. FEB- -1988

I THANK YOU FOR YOUR TELEX OF FEBRUARY 2, AND WOULD LIKE TO REFER  
TO PREVIOUS DISCUSSIONS ON THE FINANCIAL RELATIONSHIP BETWEEN  
ROMANIA AND THE IBRD, AND TO THE POSITION TAKEN BY ROMANIA AS  
EXPRESSED TO OUR TECHNICAL MISSION LAST WEEK.

WE UNDERSTAND ROMANIA'S POSITION CAN BE SUMMARIZED AS FOLLOWS.

AAA ROMANIA DOES NOT RECOGNIZE THE IMPACT OF CURRENCY VARIATIONS ON  
THE US DOLLAR VALUE OF ITS DEBT TO THE IBRD.

BBB ROMANIA BELIEVES INTEREST RATES CHARGED BY IBRD ON ITS LOANS TO  
ROMANIA SHOULD BE RETROACTIVELY REDUCED TO ABOUT FIVE TO SEVEN  
PERCENT.

CCC ROMANIA PROPOSES TO PREPAY FULLY ITS DEBT TO THE IBRD IN 1988,  
IF IBRD IS WILLING TO REDUCE THE AMOUNTS OUTSTANDING BY VERY  
SUBSTANTIAL AMOUNTS (800 TO 1,000 MILLION US DOLLARS) AS AN  
APPLICATION OF THE CONSIDERATIONS ABOVE.

THE FINANCIAL RELATIONSHIP BETWEEN ROMANIA AND THE IBRD IS REPRESENTED BY A SERIES OF LOAN AGREEMENTS RESULTING IN CONTRACTUAL OBLIGATIONS THAT ROMANIA HAS CONSISTENTLY INDICATED ITS INTENTION TO HONOR. THE TERMS OF THESE LOANS, AND, IN PARTICULAR, THE INTEREST RATES FOR INDIVIDUAL LOANS, WERE SET IN STRICT ACCORDANCE WITH THE FINANCIAL POLICY OF THE IBRD, AS AMENDED FROM TIME TO TIME BY THE IBRD BOARD OF EXECUTIVE DIRECTORS. WE ATTACH THE GREATEST IMPORTANCE TO CONTRACTUAL OBLIGATIONS BEING HONORED, AND TRUST THAT ROMANIA AGREES.

IN OUR DISCUSSIONS WE HAVE ALSO CONSISTENTLY EMPHASIZED THAT THE IBRD OPERATES AS A FINANCIAL COOPERATIVE, AND IS COMMITTED TO TREATING ALL ITS BORROWERS IN A FAIR AND EQUITABLE MANNER, ON THE BASIS OF THE POLICIES APPROVED BY ITS BOARD, AND IN ACCORDANCE WITH ITS ARTICLES OF AGREEMENT. THE IBRD, THEREFORE, CANNOT EXTEND FAVORABLE TREATMENT TO ONE BORROWER AT THE EXPENSE OF THE OTHERS. THE POSITION PRESENTED BY ROMANIA FOR PREPAYMENT OF ITS DEBT WOULD, IF APPLIED, RESULT IN AN INEQUITABLE TREATMENT AMONG BORROWERS AND IN EXTREMELY HIGH COSTS WHICH WOULD BE, DIRECTLY OR INDIRECTLY, BORNE BY IBRD'S OTHER BORROWERS. THEREFORE, WE ARE NOT ABLE TO PROCEED WITH NEGOTIATIONS ON THE BASIS OF THE FRAMEWORK WHICH ROMANIA HAS PROPOSED. I WOULD HOPE THAT THE ROMANIAN AUTHORITIES CAN RECONSIDER THEIR PROPOSALS SO THAT WE CAN FIND A CONSTRUCTIVE BASIS ON WHICH TO PROCEED.

WE REALIZE THE SPECIAL CIRCUMSTANCES OF ROMANIA'S PRESENT  
RELATIONSHIP WITH THE IBRD, AS IT STOPPED BORROWING IN 1982 AND  
DOES NOT WISH TO BORROW FROM THE IBRD IN THE YEARS TO COME.  
THEREFORE, WE HAVE CONSIDERED, AND STILL ARE WILLING TO CONSIDER,  
WAIVING PENALTIES FOR PREPAYMENT OF POOLED LOANS AS WELL AS NON  
POOLED LOANS AND FIXING A CURRENCY COMPOSITION ACCEPTABLE FOR  
ROMANIA, BASED ON CURRENT EXCHANGE RATES, FOR THOSE POOLED LOANS TO  
BE PREPAID AS INDICATED IN THE AIDE MEMOIRE OF NOVEMBER 15, 1987.

I SINCERELY HOPE THAT THE CURRENT DIFFICULTIES BETWEEN ROMANIA AND  
THE IBRD CAN BE RESOLVED EXPEDITIOUSLY WITHIN THE FRAMEWORK OF  
EXISTING CONTRACTUAL OBLIGATIONS AND THE POLICIES ESTABLISHED BY  
THE IBRD BOARD OF EXECUTIVE DIRECTORS.

THANK YOU FOR YOUR KIND INVITATION TO VISIT BUCHAREST, BUT ~~BECAUSE~~  
~~OF MY HEAVY SCHEDULE I REGRET I CANNOT ACCEPT.~~

*that*

*for*

*me to accept it*

*I regret*

*due to heavy prior commitments, it is not possible*

WITH BEST REGARDS, BARBER B. CONABLE, PRESIDENT, WORLD BANK



FORM NO. 1599  
(8-80)

THE WORLD BANK

ROUTING SLIP		DATE	
		February 3, 1988	
OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS			
NAME		ROOM NO.	
Mr. Thalwitz			
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Note and Return
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Per Our Conversation
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature
<input type="checkbox"/>	Initial	<input type="checkbox"/>	Send On
REMARKS			
Please prepare a reply for Mr. Conable's signature and return to me by cob Thursday, February 4.			
FROM			
Moeen A. Qureshi			

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

RECEIVED

88 FEB - 3 PM 5:20 25092

DUE DATE : 88/02/05

FROM : Gheorghe Paraschiv

CORRESPONDANCE DATE : /88/02/02/

FILE NUMBER : 880202022

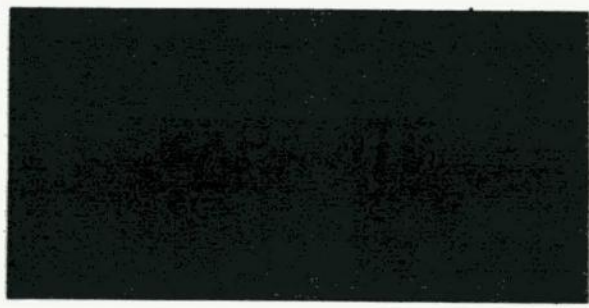
SUBJECT : ROMANIA: Would like BBC to also join the WB mission to Bucharest in order to finalize negotiations.

OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

- \_\_\_\_\_ APPROVED
- \_\_\_\_\_ PLEASE HANDLE
- \_\_\_\_\_ FOR YOUR INFORMATION
- \_\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION
- \_\_\_\_\_ FOR THE FILES
- ✓ \_\_\_\_\_ PLEASE DISCUSS WITH \_\_\_\_\_
- \_\_\_\_\_ PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE
- \_\_\_\_\_ AS WE DISCUSSED
- \_\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS :



ZC2C DIST5808 JWS0468

EXC

REF : TCP SD

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\* EXC - EXECUTIVE OFFICES \*  
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JWS0468 ZJR401 IN 02/08:08 OUT 02/08:12

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NO.716/02/II/1988

INTBAFRAD 440098  
WASHINGTON D C  
ATTN:MR.BARBER CONABLE  
PRESIDENT WORLD BANK  
-----

AS YOU KNOW, RECENTLY A WORLD BANK'S MISSION HAD IN BUCHAREST DISCUSSIONS WITH ROMANIAN SIDE, CONCERNING THE FINANCIAL MATTERS OF OUR COUNTRY WITH THE IBRD.

TAKING THIS OPPORTUNITY I ASKED TO BE CONVEYED TO WASHINGTON THE INVITATION THAT A MISSION OF THE MANAGEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO COME TO BUCHAREST IN ORDER TO FINALIZE THE NEGOTIATIONS, AT THE SAME TIME I MENTIONED THAT WILL BE A PLEASURE FOR US IF YOU, PERSONALLY COULD COME TO OUR COUNTRY, ON AN EARLY DATE IN ORDER TO CONTRIBUTE TO FIND A SOLUTION AIMED TO CONDUCT TO THE FINALISATION OF THE NEGOTIATIONS BETWEEN THE IBRD AND THE ROMANIAN SIDE, HAVING THE OCCASION OF YOUR PRESENCE HERE WE COULD APPROACH OTHER ITEMS OF MUTUAL INTEREST.

WOULD VERY MUCH APPRECIATE YOUR FAVORABLE ANSWER.

THE BEST REGARDS,  
GHEORGHE PARASCHIV  
MINISTER OF FINANCE

BUCHAREST , FEBRUARY 2, 1988.

11239A MIFIN R  
11239A MIFIN RMMM

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ROUTING SLIP		DATE:	2/1/88
NAME		ROOM NO.	
Mr. Barber Conable			
(THROUGH: Mr. Moeen Qureshi)		<i>Moeen</i>	
APPROPRIATE DISPOSITION	NOTE AND RETURN		
APPROVAL	NOTE AND SEND ON		
CLEARANCE	PER OUR CONVERSATION		
COMMENT	PER YOUR REQUEST		
FOR ACTION	PREPARE REPLY		
INFORMATION	RECOMMENDATION		
INITIAL	SIGNATURE		
NOTE AND FILE	URGENT		
REMARKS:			
Re: <u>Joint Bank-Fund Seminar with Donors on PFPs - February 8-9, 1988</u>			
Attached please find:			
1. The Annotated Agenda for the Seminar			
2. Suggested Talking Points for the luncheon you host			
3. List of people invited to the luncheon, to be updated before the seminar			
FROM:	<i>V. Dubey</i>	ROOM NO.:	EXTENSION:
	Vinod Dubey	E-3069	78051



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

BARBER B. CONABLE  
President

February 1, 1988

Mr. Mian Mohammad Yasin Khan Wattoo  
Minister for Finance and Economic Affairs  
Government of Pakistan

Dear Mr. Minister,

Thank you for your letter of January 17, 1988, concerning the drought in Pakistan and the proposed Agriculture Sector Loan.

As you know, the Bank is strongly committed to supporting the Government's development efforts. We are most interested in the Government's progress in developing a sustainable framework to maintain growth while improving the country's fiscal position. As I indicated to the Prime Minister during my visit to Pakistan in November 1987, the level and composition of Bank lending to Pakistan depends on the continued strong management of the economy by the Government. Mr. Thalwitz will be visiting Islamabad at the end of February for several days to meet with you and your colleagues to assess the status of the FY88 Budget, progress towards tax reform and preparation of a medium-term framework. The findings of that assessment will determine whether the Agriculture Sector Loan will be presented to our Board. At the same time, a determination can be made whether the amount of the loan can be increased.

With regard to an increase in the IDA allocation for Pakistan, you will appreciate the fact that IDA faces severe resource limitations. I, therefore, regret that I am unable to provide additional IDA funds to Pakistan beyond the US\$190 million level. Any financial support beyond that level will, therefore, have to come from IBRD resources.

Once again, let me express my appreciation to the Government and you personally for the warm reception during my November visit to Pakistan. I enjoyed the visit very much and profited from the excellent discussions with you and your colleagues.

Please accept my best wishes for 1988.

Sincerely,

Cleared with & cc: Mr. H.E. Köpp

cc: Messrs. Qureshi, Thalwitz, Al Sultan, RMP, Cohen

MCohen:dj

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 Must Fill  
 Completely in  
 Box!

PAGE

OFFICIAL DEPT./DIV  
 ABBREVIATION

MESSAGE NUMBER

TEST NUMBER  
 (FOR CASHIER'S USE ONLY)

1 → 1 OF 8

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*Urgent*

ATTN: MR E.H. KOPP COPY COHEN  
 EM1DR EM1CO

*EM1DR/EM1CO*  
*H5109*

PLS FIND ATTACHED A LETTER FROM MINISTER OF FINANCE AND ADDRESSED  
 TO THE PRESIDENT WORLD BANK.

REGARDS NOTTIDGE

RECEIVED  
 1988 JAN 20 AM 7:17  
 CABLE SECTION

END  
 OF  
 TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE		TELEX NO	DATE Jan 20, 1988
SUBJECT		DRAFTED BY: I.S. Sheikh	EXTENSION
CLEARANCES AND COPY DISTRIBUTION		AUTHORIZED BY (Name and Signature): <i>S.P. Nottidge</i> S. P. NOTTIDGE, ACTING CHIEF	
		DEPARTMENT	
SECTION BELOW FOR USE OF CABLE SECTION			
CHECKED FOR DISPATCH			

FROM

01/20/84 16:12

P. 5

WHITE—Transmittal Copy

BLUE—Originator to Keep



Telegram : ECONOMIC  
Telex : ECDIV No. 08-834

No. 1 (19) IDA-I/87  
Government of Pakistan  
MINISTRY OF FINANCE AND  
ECONOMIC AFFAIRS  
(ECONOMIC AFFAIRS DIVISION)

Islamabad, the 17th January 1988.

MINISTER FOR FINANCE  
AND ECONOMIC AFFAIRS.

My dear Mr. President,

Pakistan is currently faced with severe drought conditions, as a result of which a considerable shortfall in the agricultural commodities production during 1987-88 is envisaged.

2. This is inter alia likely to have an adverse affect on our balance of payments. The loss in the production of cotton is likely to result in shortfalls in cotton and cotton-based exports which constitute our single biggest export group. Exports of rice are also likely to be lower for the same reason. Instead of having an exportable surplus in wheat we will be importing wheat as well as maize and pulses. As would appear from the annexure, the loss of production is estimated at \$ 800 million which will have a severe impact on the balance of payments.

3. The World Bank is already processing an Agriculture Sector Loan for Pakistan. We believe the easiest way of affording us emergency assistance will be to raise the amount of this loan from \$ 150 to \$ 250 million with a substantial IDA component. The additional amount of \$ 100 million would be used by the Government of Pakistan for the import of agricultural inputs which will release resources for relief measures in the rainfed areas which have been the hardest hit by the drought. The loan would

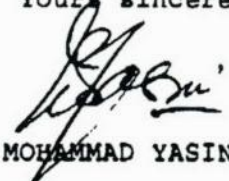
3 of 8  
M37018

also provide much needed balance of payments support to the Government of Pakistan.

4. We hope our request will receive your urgent attention and enable the Government of Pakistan to negotiate a larger amount for the ASL in the month of March.

With best regards,

Yours sincerely,



(MIAN MOHAMMAD YASIN KHAN WATTOO)

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



GOVERNMENT OF PAKISTAN  
MINISTRY OF FINANCE AND ECONOMIC AFFAIRS  
(ECONOMIC AFFAIRS DIVISION)

.....

ISLAMABAD, the 17th January 1988.

ANNEXUREEFFECT OF THE CURRENT DROUGHT  
ON THE ECONOMY OF PAKISTAN

The economy of Pakistan is mainly based on agriculture. Most of its population (72%) is directly or indirectly dependent on agriculture. It contributes about 25% to GDP of the country and provides jobs to 54% of the total labour force. The industrial products manufactured from agricultural raw materials make up around 60% of the total exports.

2. Pakistan is currently faced with severe drought conditions. The weather since June 1987 has been abnormal with extremely low rainfall. For instance in Lahore the rainfall during the last 6 months compared to the corresponding period of the previous year has been as follows:

	<u>1987</u>	<u>1986</u>
July	126 mm	223 mm
August	38 mm	134 mm
September	3 mm	61 mm
October	29 mm	8 mm
November	Nil	9 mm
December	Nil	10 mm

The position in all other important stations of the country has been similar. Appendix I shows rainfall data for 29 cities in Pakistan. It would be seen from this that rainfall during 1987 has been less than fifty percent of normal annual rainfall.

3. The data on the expected shortfall in production of various crops on account of poor weather conditions is given in appendix II. The main shortfalls are in wheat (23%) Gram (51%), Rape and Mustard (26%) Maize (24%) Rice (15%) and Cotton 9%. The total estimated value of production loss of various crops is Rs. 14 billion i.e. \$ 800 million. Pakistan shall have to import essential food commodities e.g. wheat,

Contd.....P/2.

maize and pulses and will have reduced agricultural and agrobased exports which would adversely affect the balance of payments. Despite the drought conditions, Pakistan is determined to take effective measures to provide stability to agricultural production and to ensure that the momentum of economic growth is maintained. The effort would however need support from Pakistan's donors such as the World Bank.

Handwritten notes in the top left corner, including "19016" and some illegible scribbles.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
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**N.W.F. Province.**

Peshawar	32.7	14.8	16.0	23.5	41.5	24.7	T	64.0	217.2	8.5	4.3	19.6	4.9	T	5.7	33.3	Nil	76.3	140.9	35.12
Kohat	18.7	8.9	3.6	25.4	32.5	6.4	8.3	72.5	176.3	1.8	39.1	36.3	67.0	57.0	23.0	5.0	T	229.2	-52.9	130.0
Abbottabad	128.2	66.2	100.7	274.8	253.8	28.3	140.8	123.2	116.0	110.1	109.0	93.0	98.0	N.R.	121.0	26.8	Nil	557.9	549.1	50.8
D.I. Khan	32.6	64.3	11.3	84.1	56.5	Nil	12.4	5.3	266.5	8.0	11.2	7.4	16.0	3.2	Nil	Nil	Nil	45.8	220.7	17.18
Bannu	11.0	13.0	19.0	15.0	73.0	8.0	13.0	22.0	174.0	16.0	66.0	12.0	65.5	N.R.	15.5	Nil	Nil	175.0	-13.87	108.6
Malakand	48.8	23.9	26.4	155.2	141.2	53.3	Nil	90.7	539.5	15.8	5.6	12.2	70.0	N.R.	27.0	59.7	Nil	190.3	349.2	35.27

**Baluchistan Province.**

Quetta	T	Nil	Nil	1.0	66.0	Nil	Nil	19.6	86.6	2.0	10.8	6.0	Nil	7.1	Nil	Nil	Nil	25.9	60.7	29.9
Sibbi	4.0	Nil	Nil	15.0	82.7	Nil	Nil	4.3	106.0	1.2	29.6	Nil	20.0	Nil	Nil	Nil	Nil	50.8	55.2	47.9
Dalbandin	Nil	Nil	Nil	Nil	2.7	Nil	Nil	Nil	2.7	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	2.7	Nil
Kalat	10.1	Nil	T	18.7	75.8	Nil	Nil	Nil	104.6	0.1	15.2	1.2	Nil	10.6	Nil	Nil	Nil	27.1	77.5	25.9
Zhob	24.4	18.1	9.6	11.0	18.4	Nil	Nil	10.2	91.7	4.8	43.2	19.5	4.0	49.9	Nil	Nil	Nil	121.4	29.7	132.4

Note:- N.R. = Not Received  
T = Trace.

01/20/84 16:16 P.11

FROM

7  
19  
16

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
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N.W.F. Province.

Peshawar	32.7	14.8	16.0	23.5	41.5	24.7	T	64.0	217.2	8.5	4.3	19.6	4.9	T	5.7	33.3	Nil	76.3	140.9	35.1
Kohat	18.7	8.9	3.6	25.4	32.5	6.4	8.3	72.5	176.3	1.8	39.1	36.3	67.0	57.0	23.0	5.0	T	229.2	-52.9	130.0
Abbottabad	128.2	66.2	100.7	274.8	253.8	28.3	140.8	123.2	ED16.0	110.1	109.0	93.0	98.0	N.R.	121.0	26.8	Nil	557.9	549.1	50.8
D.I. Khan	32.6	64.3	11.3	84.1	56.5	Nil	12.4	5.3	266.5	8.0	11.2	7.4	16.0	3.2	Nil	Nil	Nil	45.8	220.7	17.1
Bannu	11.0	13.0	19.0	15.0	73.0	8.0	13.0	22.0	174.0	16.0	66.0	12.0	65.5	N.R.	15.5	Nil	Nil	175.0	-13.87	108.6
Malakand	48.8	23.9	26.4	155.2	141.2	53.3	Nil	90.7	539.5	15.8	5.6	12.2	70.0	N.R.	27.0	59.7	Nil	190.3	349.2	35.2

Baluchistan Province.

Quetta	T	Nil	Nil	1.0	66.0	Nil	Nil	19.6	86.6	2.0	10.8	6.0	Nil	7.1	Nil	Nil	Nil	25.9	60.7	29.9
Sibbi	4.0	Nil	Nil	15.0	82.7	Nil	Nil	4.3	106.0	1.2	29.6	Nil	20.0	Nil	Nil	Nil	Nil	50.8	55.2	47.9
Dalbandin	Nil	Nil	Nil	Nil	2.7	Nil	Nil	Nil	2.7	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	2.7	Nil
Kalat	10.1	Nil	T	18.7	75.8	Nil	Nil	Nil	104.6	0.1	15.2	1.2	Nil	10.6	Nil	Nil	Nil	27.1	77.5	25.9
Zhob	24.4	18.1	9.6	11.0	18.4	Nil	Nil	10.2	91.7	4.8	43.2	19.5	4.0	49.9	Nil	Nil	Nil	121.4	29.7	132.4

Note:- N.R. = Not Received  
T = Trace.

IN THOUSAND TONNES

Crops	Actual Production 1985-86	Actual Production 1986-87	Initial Production Estimates 1987-88	Current Production Estimates 1987-88	Expected shortfall (percentage)
<u>KHARIF (Summer):</u>					
1. Cotton	1,208	1,326	1,311	1190	9.0
2. Rice	2,919	3,520	3,622	3,079	15.0
3. Sugarcane	27,856	29,917	35,000	31,400	10.3
4. Maize	1,009	1,111	1,165	888	23.8
5. Sorghum	218.6	236	220	170	22.7
6. Millet	258.4	214	257	117	54.5
7. Pulses (Mung & Mash)	211	218	108	77	28.7
<u>RABI (Winter):</u>					
1. Wheat	13,923	12,836	15,000	11,500	23.3
2. Gram	586	598	617	300	51.4
3. Rape & Mustard	250	258	271	201	25.8

Impact on Local Availability  
of Edible Oils

	<u>In Thousand Tonnes</u>
1. Cotton Seed Oil	35.8
2. Rape & Mustard Oil	21.9
Total :-	<u>57.7</u>

Cost of Equivalent Quantity  
of Soyabean Oil

Rs. 531.6 million

February 2, 1988

Dear Ms. Walsh:

I thank you for your letter dated January 11, 1988 to which were attached a copy of your report contributing to the work of the Bank's Appraisal Mission on the Enterprise Development Project in the Gambia, as well as various materials summarizing the activities of your organization.

I am pleased to see that our two organizations have had a fruitful cooperation which has resulted in the inclusion of a special component for the promotion of women entrepreneurship in the Gambian Project. Please be assured that the Bank is committed to develop the role of women in economic development in collaboration with such organizations as yours.

As you suggested, I would be glad to meet with you at a mutually convenient date.

Sincerely,

*(Signed) Barber B. Conable*

Ms. Michaela Walsh  
President  
Women's World Banking  
104 East 40th Street  
New York, New York 10016

cc.: Messrs./Mmes. Conable (2 copies), Qureshi (SVPOP), Gillette (AF5DR)  
Bauer (AF5IE), Agueh (AF5PH), Herz (PHRWD)  
Williamson (AF5CO), Adoteye (AFTIE)

  
HNguyen:ble

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Sincerely,

Ms. Michaela Walsh  
President  
Women's World Banking  
104 East 40th Street  
New York, New York 10016

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Williamson (AF5CO), Adoteye (AFTIE)

  
HNguyen:ble

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# WOMEN'S WORLD BANKING

January 11, 1987

Mr. Barber B. Conable  
President  
The World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433

Dear Mr. Conable:

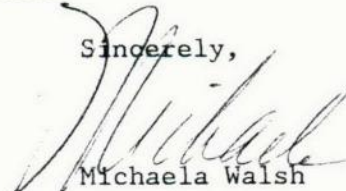
As the new year begins I wanted to thank you and Mr. Stanton for the assistance you gave to me and to my colleagues in Women's World Banking in 1987.

I am taking the liberty of sending you materials which summarize the work of Women's World Banking to date: WWB 1986 Annual Report, WWB Trilingual Brochure, and the WWB Global Self-Assessment.

Enclosed you will find a copy of the Report we submitted to the World Bank which includes our recommendations about the work we did in The Gambia. As you know, we accompanied two World Bank missions to The Gambia: one was to develop a strategy for Women in Development, the other was an appraisal of a Private Sector Enterprise Development. I can only say that the commitment of the people in The Bank to their work strengthened my hopes for the future. Both missions were a learning experience for all of us and I hope they will prove beneficial for people in The Gambia. The women particularly, are a very special group of people. I am convinced they will make a major contribution toward helping build their economy.

We would like to meet with you and give you a personal update on our progress. I will call your office in early February to try to arrange a meeting convenient to your schedule.

Sincerely,



Michaela Walsh  
President

enclosures: as stated

cc. J. William Stanton



# OFFICE MEMORANDUM

DATE: January 28, 1988

TO: Mr. Thierry Baudon, SVPOP

FROM: Jean-Francois Bauer, AF5IE

EXTENSION: 35017

SUBJECT: Ms. Michaela Walsh's Letter of January 11, 1988

1. Attached please find a draft response from Mr. Conable to Ms. Walsh for your consideration. The Enterprise Development Project in the Gambia was appraised in September 1987 and is expected to be presented to the Board in the second quarter of 1988. The project has basically included Ms. Walsh's proposal regarding assistance to women entrepreneurs (US \$225,000) which is described in para 1.33 of her report. Please refer to the attached draft SAR for further information (paras 1.14, 3.14 and 3.15).

2. We guess that Ms. Walsh's visit is generally to brief Mr. Conable on the latest activities and performance of Women's World Banking (WWB) and to find out other prospects for cooperation between the Bank and WWB. We would like to mention that a WID Project in the Gambia is being prepared by the AF5PH division (Ms. Walsh has participated in the inception meeting). With regard to the Enterprise Development Project, perhaps the only specific question Ms. Walsh might raise relates to her proposal that WWB undertake the contracting of the consulting services provided for under the women component (see last sentence on page 11 of Ms. Walsh's report). We consider this to be acceptable provided that we are satisfied with the capabilities of the candidates sponsored by WWB.

cc: Messrs/Mmes. Agueh (AF5PH); Herz (PHRWD);, Williamson (AF5CO); Adoteye (AFTIE)

Attachments

  
HNguyen:sm

February 1, 1988

Dear Mr. Ambassador:

Many thanks for your letter of January 22 regarding the appointment of Hon. M.H.M. Naina Marikkar as Minister of Finance and Planning. I welcome him as the Governor for Sri Lanka at the International Bank for Reconstruction and Development, and look forward to the opportunity of meeting him at an early date.

With warm regards.

Sincerely,

H.E. Susantha de Alwis  
Ambassador of Sri Lanka  
2148 Wyoming Avenue, N.W.  
Washington, D.C. 20008

cc: Messrs. Asanuma, Huang, Zagha

Copy to: Mr. Rao Sahib, Executive Director

HAggarwal:ku

OFFICIAL FILE COPY

WORLD BANK OTS SYSTEM  
OFFICE OF THE PRESIDENT

24988  
1/27/88  
1.

*Ag*

CORRESPONDANCE DATE : 88/01/22 DUE DATE : 88/02/05  
LOG NUMBER : 880126032 FROM : Susantha de Alwis  
SUBJECT : Hon. N.H.M. Naina Marikkar has been appointed as Minister of  
Finance & Planning, Embassy of Sri Lanka  
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

- \_\_\_\_\_ APPROVED
- \_\_\_\_\_ PLEASE HANDLE
- \_\_\_\_\_ FOR YOUR INFORMATION
- \_\_\_\_\_ FOR YOUR REVIEW AND RECOMMENDATION
- \_\_\_\_\_ FOR THE FILES
- \_\_\_\_\_ PLEASE DISCUSS WITH \_\_\_\_\_
- \_\_\_\_\_ PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE
- \_\_\_\_\_ AS WE DISCUSSED
- \_\_\_\_\_ RETURN TO \_\_\_\_\_

COMMENTS : Letter to the new MOF

7-16928

Ry

*From the Ambassador of Sri Lanka*

January 22, 1988

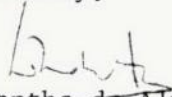
Mr. Barber Conable  
President  
International Bank for Reconstruction  
and Development  
The World Bank  
Washington DC.

I wish to inform you that Hon. M.H.M. Naina Marikkar has been appointed as Minister of Finance & Planning following the resignation of Hon. Ronnie de Mel from the Cabinet.

Mr. Naina Marikkar will therefore function as the Governor for Sri Lanka at the International Bank for Reconstruction and Development.

For your information, I would like to add that Mr. de Mel will continue to be a Member of Parliament and a Member of the United National Party.

Sincerely,

  
Susantha de Alwis