

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: A.W. Clausen Briefing - Briefings 02

Folder ID: 1771361

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4539S

Series: Subject files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: January 9, 2013

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

McNamara papers

A

The World Bank Group
Archives



1771361

A1995-256 Other #: 2

309658B

A.W. Clausen Briefing - Briefings 02

Folder 2 of 6

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

717/4/6
For consideration on
May 28, 1981

R81-78

FROM: Vice President and Secretary

April 15, 1981

EXPANDED ENERGY LENDING - ENERGY AFFILIATE

Attached is a memorandum entitled "Expanded Energy Lending - Energy Affiliate" dated April 15, 1981 from the President.

Questions on this document may be referred to Mr. Vibert (X75465).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

April 15, 1981

Office of the President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: EXPANDED ENERGY LENDING - ENERGY AFFILIATE

DECLASSIFIED
NOV 30 2012
WBG ARCHIVES

SECTION I. INTRODUCTION

1. In August 1980 the Executive Directors discussed the paper entitled, "Energy in the Developing Countries". ^{1/} They recognized the desirability of expanding the Bank's energy lending program and endorsed the recommendation that the Bank should explore the establishment of an Energy Affiliate of the Bank to provide additional financing to promote energy self-sufficiency in the developing countries. Since then, informal consultations have been held with interested governments on various approaches to the formation of an Affiliate. This report has been prepared for consideration by the Executive Directors in the light of these consultations.

2. Oil-importing developing countries (OIDCs) face an acute problem in adjusting to high cost energy. Their current levels of energy use are low, but have to rise rapidly if momentum in their development process is to be maintained. Their consumption of energy in 1980 amounted to 13.7 million barrels per day of oil equivalent (mbdoe) and is expected to rise to 24.3 mbdoe by 1990, even to achieve modest growth objectives. In 1980, import bills for oil amounted to \$74 billion (4.8% of GNP compared with 2.8% of GNP in 1978) and accounted for over 50% of the export earnings of countries such as Brazil and India.* To reduce the current account deficits to sustainable levels relative to GNP and to obtain the quantities of energy required for acceptable rates of economic growth will require a reorienting of development strategies, including a reorientation of energy programs.

3. The key elements in the adjustment process as it relates to energy include:

- a strategy for energy development and energy use integrated into a country's overall planning framework and development objectives;
- a vigorous program of import substitution by developing all possible indigenous sources of energy including hydropower, coal and fuelwood, as well as the exploitation of any domestic oil and gas potential;

^{1/} Report No. 3076, dated July 11, 1980.

- 2 -

- a massive investment and savings effort to finance this increase in domestic energy production--average annual investments (in 1980 dollars) of around \$40 billion will be needed between now and 1985 (including \$5 billion for oil and gas) and more than \$50 billion a year between 1986 to 1990 (including \$7 billion for oil and gas) compared to less than \$20 billion per year over the past five years;
- major conservation efforts including appropriate pricing policies to minimize consumption and maximize production, and measures to increase energy efficiency.

4. The international community has an important role to play in helping developing countries to carry out this adjustment process. Even with the incentives provided by pricing policies adjusted to reflect market scarcities and even with a maximum effort to mobilize additional domestic resources, self-help will need to be supplemented by external assistance. All forms of external capital will be needed.

5. Private capital and know-how have a major role to play. With respect to developing hydrocarbon resources, for example, private direct investment has been vital in many countries in both the exploration and development phase and the Bank's energy operations complement these private flows in a variety of ways: (See Annex 1 for a list of projects in which this has happened).

- by financing related infrastructure. In Thailand, for example, an engineering loan followed by an infrastructure project laid the foundation for the development of a gas find by Union Oil, and has also led to renewed interest in further exploration by private companies in the Gulf of Thailand;
- by altering perceptions of political risk. The Bank's "presence" requested both by the oil company and by the Government helped attract the participation of Gulf Oil and BP in oil exploration in Pakistan, for example, and several further possibilities are being considered involving other companies in other countries;
- by strengthening institutions that deal with foreign private investors. In Turkey, for example, a technical assistance component of a project is strengthening the General Directorate of Petroleum Affairs in charge of negotiating agreements with foreign oil companies;
- by accelerating pre-development activity. In Bolivia, for instance, Bank financing of feasibility studies and appraisal drilling is expected to advance the date when potential gas export projects will be at a stage where private capital can come in;

- by opening up new acreage for private investors and by providing assistance to the government in formulating a legal/contractual framework for private investors as part of Bank-financed exploration promotion loans. In Madagascar, for example, no exploration had taken place since 1975, but now 8 companies have expressed interest as a result of the Bank's project.

The Bank's activities along these lines has provoked rising interest by a number of large oil companies and indicates growing potential for operations involving associated investments by oil companies in the near future.

6. Private capital from commercial banks is also important in the financing of energy development projects. Here again, the Bank's energy operations are complementary by providing associated longer term financing, by strengthening domestic institutions, their management and their financial viability and by helping prepare their investment programs. This has been the practice in the power sector for many years and it will also increasingly be the case in hydrocarbons. In Thailand, for example, aside from direct investment by Union Oil, financing was mobilized from commercial banks and export credit agencies for a total of \$330 million. Another similar recent example is in the case of the Bombay High development (where about \$250 million has been mobilized).

7. There are other situations in which official capital may be critical. Certain types of projects, which are especially important to the poor--such as reforestation projects--are not attractive to private capital at all. Official capital may also be necessary in cases where the energy resource is thought likely to be sufficient only for supplying domestic needs. Such situations may not be attractive to private capital (particularly in low income countries) even though the prospective value to the domestic economy is very high. In hydrocarbon projects in low income countries where export earnings are possible, private capital may be attracted on an enclave basis. Even in such situations, the Bank may have a useful role to play.

8. Both the industrialized countries and the capital surplus developing countries have a vital interest in measures to stimulate the flow of external capital into energy investments in the OIDs so as to:

- improve the balance of supply and demand in international energy markets, which is in the interests of oil producers as well as oil importers;
- support the efforts of oil importing countries to undertake the structural adjustments needed to resolve their balance of payments difficulties on a sustainable basis and avoid dislocation in international capital movements;
- achieve early restoration of acceptable rates of growth in oil importing developing countries and provide an important stimulus to more buoyant world-trading conditions.

9. The World Bank has already increased its emphasis on lending for energy so that it accounts for about 17% of the Bank's planned program for FY82-86. The \$14 billion program envisaged is however considerably below the program considered to be feasible and desirable. An additional program of energy investments, for which the sources of external financing are not likely to be available, has been identified totalling a further \$16 billion. It cannot be carried out within the present capital constraints of the World Bank because such a program would amount to 30% of the total Bank Group program, would thus upset the sectoral balance in Bank Group activities and lead to a weakening of the Bank's support for other key areas of the development process such as agriculture.

10. The means of securing additional financing to carry out this program can be sought in a number of ways. The alternatives were set out in an earlier paper to the Executive Directors. ^{1/} They included the possibility of a further increase in IBRD capital beyond the doubling involved in the General Capital Increase (GCI), possibly associated with the raising of IBRD's statutory limit on lending. Legislative action on the GCI is expected shortly and payments should begin in October. In these circumstances it would be difficult to seek a further increase in IBRD capital at the same time as action is being taken to implement the General Capital Increase. The creation of an Energy Affiliate has been suggested in part because the organization of a separate capital structure to mobilize resources for energy offers the possibility of moving ahead quickly in this high priority area and at the least cost to governments. Funding for a \$25 to \$30 billion lending program could be mobilized on the basis of budgetary outlays by all contributors of only \$1 billion to \$1.5 billion. The cost for any one subscriber would be small and in any event could be spread out over two or three years. Urgent action in this area is in the interests of the international community as a whole. The Affiliate could be organized to attract funds from capital surplus developing countries thus contributing to the recycling process. It would also provide a central focus specifically on the long-term capital requirements of the energy sector, and for increased efforts and new techniques to associate Bank Group lending with private capital. The program can be mounted at a minimum budgetary cost to OECD and OPEC governments and without creating a new bureaucracy.

11. The purpose of this report is to establish a basis for the start of negotiations on establishing an expanded World Bank Energy Lending Program. To this end, this report outlines, in a very preliminary fashion, the main features of an Affiliate around which negotiations might center and a draft charter be prepared. These suggested features of the Affiliate are likely to change in the course of further examination and detailed negotiations. Approval of the opening of negotiations would in no way commit individual governments either to the formation of an Affiliate or to participate eventually in it if one were formed. Negotiations would, however, enable a considered judgment to be made as to whether additional resources for energy investment by the World Bank in developing countries are needed and could be successfully mobilized.

^{1/} "Possible Means of Financing an Expanded IBRD/IDA Lending Program", dated December 18, 1980.

SECTION II. THE PROGRAM TO BE FINANCED

12. The Scale of the Program. Against the background of the urgent need to expand energy investments in oil importing developing countries, an additional program of investments to be undertaken by the Bank, if the additional financial resources can be found to support it, has been identified. The program was outlined in the earlier paper, "Energy in the Developing Countries," and more recently, the expanded program was extended forward by one year. 1/ Although the bulk of the program is in oil importing developing countries, it includes investments in oil exporting developing countries for electric power, development of gas and other forms of energy since their policies and approach affect their consumption and exportable surplus. The desirable program in energy totals \$30 billion over FY82-86, 2/ approximately \$16 billion above the previously planned level.

Operational Program for an Energy Affiliate

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY82-86</u>
No. of Operations	75	80	100	100	100	460
Commitments (\$ million)						
Expanded program	3,700	4,800	6,600	7,200	8,000	30,300
Present program <u>a/</u>	2,500	2,700	2,800	2,900	3,200	14,100

a/ As contained in, "Energy in Developing Countries", dated July 11, 1980.

13. A Catalytic Role. It is estimated that a program of this size will provide (on average) the financing for only about 10% of total investment needs of developing countries in the energy sector. A major objective of the program, therefore, is to serve as a catalyst to mobilize other financial resources both domestic and foreign. Annex Table II shows the co-financing associated with Bank lending to the energy sector in recent years. The growing importance of private sources of co-financing should be further accelerated as the expanded program in oil and gas gets underway.

1/ "Possible Expansion of IBRD/IDA Lending over Presently Planned Levels," dated November 14, 1980.

2/ About \$4.5 billion of this program is for projects in the poorest countries not able to accept external assistance on the market-related terms on which the Affiliate will be able to lend. The question of how to find additional resources for the poorest countries is addressed in Section III below.

- 6 -

14. It is not only the project content of the program that is important from this perspective. The Bank's program of energy sector studies, being carried out in some 60 developing countries, will help provide a basis for an investment program in them and a framework for all potential lenders including foreign private capital.

15. The table below summarizes the expanded FY82-86 energy program as presently envisaged.

Sector Distribution of the Expanded Energy Program (\$b)

	Proposed Program					\$billion		FY82-86		
								Proposed Distribution		Proposed Operations
	FY82	FY83	FY84	FY85	FY86	Proposed	Present	Percent	No.	Percent
Electric Power	2.0	2.0	2.6	3.0	3.3	12.9	8.1	43%	135	29%
Oil and Gas										
Pre-Development	0.4	0.6	0.6	0.6	0.7	2.9	1.1	10%	120	26%
Development	0.7	1.0	1.6	1.9	2.0	7.2	3.2	24%	75	16%
Coal & Coal Gasification	0.1	0.5	0.6	0.5	0.6	2.3	0.9	8%	50	11%
Fuelwood & Biomass	0.2	0.3	0.6	0.4	0.5	1.8	0.6	6%	50	11%
Powerhouses & Retrofitting	0.3	0.5	0.7	0.8	0.9	3.2	0.2	11%	30	7%
Total	<u>3.7</u>	<u>4.9</u>	<u>6.5</u>	<u>7.2</u>	<u>8.0</u>	<u>30.3</u>	<u>14.1</u>	<u>100%</u>	<u>460</u>	<u>100%</u>

16. The comprehensive approach of the proposed energy program reflects the diverse energy situations that exist in oil importing developing countries. Some countries have a significant potential in oil and gas development (particularly to meet their domestic needs), while others have a natural resource base in coal or hydropower. In many developing countries, the dependence on scarce fuelwood is a major energy problem. Furthermore, there are important intra-sector "trade-offs" within a country which have to be taken into account in taking investment decisions in the energy sector. A broad approach is necessary not only for settling investment priorities within a sector, but also in order to draw up a coherent set of policies affecting energy end use, such as pricing, subsidies and conservation measures. The major objectives of the key components of the program are outlined below.

17. About 40% of the program is in electric power, although investment on this scale will only meet about 5-6% of investment needs in this area. Involvement in the power sector is crucial for the energy program, since significant opportunities exist for substitution of indigenous sources of

energy and no oil-fired generating facilities will be financed. About 45% of the power program will be for hydro generation, a further 20% for coal-fired thermal plants and the balance will be for the transmission and distribution. Investment in the power sector is also crucial for addressing pricing and efficiency issues.

18. About one-third of the program is in oil and gas. In the case of predevelopment activities, the dollar volume of lending envisaged is less significant than the number of operations because the program envisages a major financial contribution from the private sector, often in partnership with the host government. An important part of the predevelopment work in the oil and gas sector will be concerned with exploration promotion designed to increase the availability of new exploration acreage to private industry on reasonable terms. New entrants to international exploration such as medium-sized independents will be important participants in this area of the program. There will also be scope for new modes of involvement such as the technique of the "Letter of Cooperation," which seeks to provide a "presence" at the exploration stage and gives private investors more assurance in their operations. The financing of exploration and appraisal drilling is envisaged in specific situations where private capital is not attracted in sufficient volume. In the case of oil and gas development, willingness of the Bank to finance the infrastructure component makes it much more attractive for private oil companies to participate in the exploration/development stages.

19. About 10% of the program is coal. The coal program is designed to assist in roughly doubling coal output by 1990. Assistance is planned in coal exploration and preinvestment work; about 50% of the proposed program will finance coal mining and handling investments and a further 30% the associated transport infrastructure. All projects are expected to include a training/technical assistance component.

20. The provision in the program for fuelwood and biomass is modest compared to requirements. The fuelwood development program is aimed at the lower income countries of Africa and Asia where wood is still the primary source of energy for the majority of the population. While individual usage is small (the equivalent of less than 0.2 tons of oil equivalent per year) in aggregate terms, the use of fuelwood far outstrips supply and has led to serious deforestation problems and to a decline of agricultural production due to soil erosion and other factors. At current rates of planting (0.5 m. hectares per annum in recent years) projected demand for kerosene and other petroleum products will rise at 10-15% annually, providing additional balance of payments strain on the poorest countries. This can be forestalled. But it will require a five-fold increase in the rate of planting to 2.5 m. hectares per annum in the next two decades.

21. The program also has provision for involvement in the adaptation of refinery capacity and in industrial retrofitting as an important part of the overall focus on measures to improve energy efficiency and conserve fuel use. Investments in refinery operations will be aimed at improving the configuration of existing refineries, particularly their conversion capacity from fuel oil to light distillates and at ensuring the correct configuration of new investments.

22. Finally, an important dimension of the proposed approach to energy lending will be non-financial. The program of investments is intended to be fully integrated within each borrowing country's development strategy and in line with the Bank Group's overall support for that strategy. This integrated approach will encompass both lending activities and advice on relevant policies. The latter has come to assume a critical importance because energy policies have a major impact on many key aspects of the formulation of a country's development strategy.

SECTION III. SOURCES OF FINANCE AND CAPITAL STRUCTURE

23. The key financial issue in the design of an Energy Affiliate is how to mobilize the funds required in an environment where many governments that have traditionally been sources of development finance are under intense pressure to minimize increases in budgetary expenditures over the next few years. The most feasible approach, under these circumstances, is for the bulk of the resources mobilized by an Affiliate to take the form of borrowings on market terms. Budgetary expenditures would be minimized by asking governments to support the Affiliate mainly through guarantees (i.e., callable capital) as well as through direct lending on market terms. Cash outlays in the form of paid-in capital would be kept to the absolute minimum.

24. If this basic design concept is accepted, three questions immediately arise: (a) how much capital in total (including both paid-in and callable) is needed in order to assure the Affiliate's capacity to borrow the sums it requires on reasonable terms; (b) what is the minimum volume of paid-in capital needed to achieve an acceptable financial position for the Affiliate in the early years while it is building up its own earnings base; and (c) what arrangements can be made to finance operations in countries which are not creditworthy for borrowings on market terms? Each of these questions may be considered in turn.

Total Capital Requirements

25. The question of total capital requirements has been discussed with the investment bankers who act as underwriters for IBRD bond issues. As is well known, the Articles of Agreement for the IBRD limit its loans outstanding to the total of its subscribed capital and retained earnings-- a ratio of 1 to 1. It appears probable that a newly established Affiliate could operate with a higher ratio of lending to capital. The precise ratio would depend in part on the proportion of the capital subscribed by countries whose guarantees are highly regarded by the markets. Views on prudent limits also, of course, differ from market to market. Depending on the composition of the capital, a legal limit on lending to capital of 2-1/2 to 1 could be acceptable to the markets, but it would be a matter of financial judgment as to how far and how fast the Affiliate could move in that direction.

26. Approximately \$25 billion of the Affiliate's \$30 billion lending program for FY82-86 would be in countries that are currently regarded as creditworthy for IBRD borrowing. (Arrangements for the \$4.5 billion of lending to "IDA only" countries are considered below.) A total capital of \$10-15 billion might be considered as a basis for negotiations. It may be conservative, but this conservatism is justified by the fact that the Affiliate would be a new institution, unfamiliar to the markets. Moreover, it seems desirable to seek a capital base that would be clearly adequate to support the lending envisaged for the first five years. If a \$10-15 billion capital base were to prove to be more than adequate to support a \$25 billion lending program, the interval prior to a replenishment decision would simply be longer.

Paid-In Capital Requirements

27. Because the loans committed by the Affiliate will only be disbursed gradually over a period of years, it will take some time for it to build up its own sources of revenue. Paid-in capital is required to provide a source of income in this start-up phase. The figures in the table below show various indicators of the Affiliate's financial position in the initial years on the basis of three alternative assumptions about the volume of paid-in capital: \$1.0 billion, \$1.5 billion, and \$2.0 billion. In each case, the capital is assumed to be paid-in over three years and all released for use in operations. The decision as to which of these scenarios represents the prudent minimum objectives for the Affiliate in the early years is, of course, a matter of judgment. However, while actual income losses can readily be explained to investors for the first two or three years, thereafter it would be desirable to show a positive net income rising to significant proportions in the fourth or fifth year.

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
<u>Net Income</u>					
\$1.0 billion paid-in	(53)	(36)	(18)	25	73
\$1.5 billion paid-in	(49)	(13)	23	79	132
\$2.0 billion paid-in	(39)	18	69	136	201
<u>Interest Coverage Ratio</u>					
\$1.0 billion paid-in	0.47	0.89	0.97	1.03	1.07
\$1.5 billion paid-in	0.54	0.96	1.04	1.10	1.13
\$2.0 billion paid-in	0.63	1.06	1.13	1.19	1.21
<u>Debt Service Coverage Ratio</u>					
\$1.0 billion paid-in	0.47	0.89	0.97	1.03	1.20
\$1.5 billion paid-in	0.54	0.96	1.04	1.10	1.27
\$2.0 billion paid-in	0.63	1.06	1.13	1.19	1.36

28. In the light of this analysis, it is suggested that the negotiations might commence on the basis that 10% of the subscribed capital would be paid in, that is, \$1.0 to \$1.5 billion out of a total of \$10 to \$15 billion. Since payments would be made over three years--say, \$300 to \$500 million per year--the budgetary implications for subscribing members would be modest.

29. Lending to the Poorest Countries. It was mentioned earlier that in the FY82-86 period, some \$4.5 billion of energy projects had been identified in countries not creditworthy for IBRD lending (countries receiving assistance only from IDA).

30. Resources set aside for energy lending in IDA current plans are around \$0.7 billion for the period FY82-83 (the last two years of the IDA6 replenishment period) and might amount to \$1.5 billion in the seventh replenishment period FY84-86. The central issue in considering expanded energy lending in the poorest countries is how the remainder (say, \$2.25 billion) of the \$4.5 billion is to be financed.

31. An Affiliate could not adopt lower standards of creditworthiness than the IBRD without jeopardizing its own ability to borrow at reasonable cost. It should be emphasized that the problem is only to a minor degree one of income risk. Even if it were possible to subsidize interest rates on loans to the poorest, the portfolio risk would still be unacceptable.

32. The possibility of insulating feasible projects in non-creditworthy countries using an enclave project technique has been considered. It is quite clear that, while enclave financing may well be utilized for some of the oil and gas production projects, such projects are likely to be a very small share of the proposed lending for energy.

33. In the final analysis, the question of energy lending to the poorest turns on whether additional concessional resources can be provided. The amount of additional resources required is small in relation to the total program; however, it is crucial for the poorest countries. They cannot attract capital from private lenders; they have no alternative sources of assistance. Within IDA's resources there is some scope for the redirection of assistance to the poorest. A small additional amount for energy lending in "IDA only" countries might become available by substituting energy projects for other types of projects in IDA's current lending plans for these countries. Some additional co-financing from other official sources of concessional funds should be possible. All of these and other possibilities should be further explored in the course of negotiations.

SECTION IV. ORGANIZATION

34. Staffing and Management. Preliminary consultations have indicated differences on how an Affiliate should be organized. The need for a link with the Bank is accepted, but views vary on the precise extent of the link. Whatever the final decision regarding the form of the link, it is important to recognize the advantages to the developing countries of an integrated approach.

35. First, it would facilitate a quick startup of expanded lending operations. The Bank has a long-established expertise in such areas as the power sector, and more recently has established a core staff for lending for oil predevelopment and development and is expanding its forestry staff. On this foundation, the expanded program of energy investments could be undertaken without delay. The existing form of organization would ensure that intra-sector considerations are fully taken into account, as well as the many linkages that exist with other sectors such as transportation. Furthermore, the policy objectives of energy lending could be framed in the light of the Bank's regular program of economic and sector studies and be fully integrated into the dialogue with borrowing countries on their overall development objectives as well as the Bank's supporting program of lending. It would be extremely difficult and time-consuming to establish a comparable capacity in a substantially autonomous Affiliate.

36. Finally, and perhaps most importantly, it would reconcile the need to provide a central focus for energy lending with the need to maintain the Bank as an integrated development institution.

37. The World Bank's role as a development institution is to help developing countries, on a country-by-country basis, and in the light of their particular development objectives, to formulate optimal development strategies. The approach to energy issues has a central place in this development dialogue between the Bank and its borrowers. Subjects which have traditionally formed the core of the Bank's dialogue with borrowers--domestic and external resource mobilization, investment priorities, etc.--are all affected by the energy outlook, as are the size and the sector distribution of the Bank's lending program to particular countries. Removing energy from the Bank's dialogue with member countries would seriously weaken the Bank. The Bank needs to be maintained as an integrated development institution in order to carry out its role effectively.

38. The Board of Governors and Executive Directors. Although it is believed that an Affiliate should be integrated with the Bank, it could have its own Board of Governors, in which all powers of the Affiliate would be vested, and its own Board of Executive Directors responsible for the general operations of the Affiliate, as well as exercising such powers as are delegated to them by the Board of Governors.

39. The most efficient system would be for the Governors of IBRD, who are ex officio Governors of IDA, and the IFC, to act also, ex officio, as Governors of the Affiliate to the extent that their governments participate in it. Similarly, the Executive Directors of IBRD, who act, ex officio, as Executive Directors of IDA and IFC, would also act, ex officio, as Executive Directors of the Affiliate.

40. The Governors and, to the extent of the powers delegated to them, the Executive Directors would decide the overall operational, financial and other policies of the Energy Affiliate. An ex officio system of representation would help assure that the policies of the Energy Affiliate would be fully consistent with the policies of the Bank Group and the Bank's general approach to development issues.

41. The composition of shareholdings, the relative importance of sources of direct financial support, and the pattern of voting in the Energy Affiliate might differ from that in IBRD. These differences (following the precedents in IFC and IDA) could also be accommodated by Governors and Executive Directors of IBRD acting ex officio in the Energy Affiliate.

42. Voting. The voting structure of an Affiliate should be consistent with the objective of attracting the support of investors and rapidly establishing a sizable borrowing capacity for the Affiliate in financial markets. However, the connection between subscriptions to the capital of the Affiliate and votes need not be a rigid one. For example, forms of financial support other than subscriptions to its capital, such as direct lending to the Affiliate, might be recognized in the voting system, and there are non-financial considerations, such as the need to ensure appropriate representation for developing countries, which should also be introduced into the voting structure.

V. SUMMARY AND RECOMMENDATIONS

43. This paper has outlined an Affiliate which could fulfill three major functions:

- mount a comprehensive program of support for energy investments fully integrated into the reoriented development strategies made necessary by high-cost energy;
- serve as a catalyst to mobilize additional finance for this purpose from all sources and, in particular, private capital;
- act as a lender of last resort to finance about 10% of sector investment needs for those investments which cannot be undertaken by private capital.

44. The financial structure outlined holds out the promise of mobilizing the additional resources required at a minimum cost in terms of government outlays. The benefits to the international community in terms of improved balance in international energy markets, and a smoother approach to the long-run structural adjustments needed in developing country economies would be large.

45. It is therefore recommended that negotiations should be started to explore in detail the expansion of the Bank's Energy Lending Program and the formation of an Energy Affiliate to provide the financing required. For this purpose, Governors of countries whose financial strength would provide a significant part of an Affiliate's capital foundation, if one were eventually to be formed, would be invited to designate Deputies to carry out negotiations. In addition, in order to secure broad representation in the negotiations, developing country Governors with the largest representation in Board constituencies not otherwise represented by a developing country representative would also be invited to designate Deputies. The Deputies would prepare a report and recommendation for consideration by Executive Directors who would, if appropriate, forward a report to the Governors.

46. A decision to start negotiations would not prejudice the eventual recommendation of Deputies and Executive Directors as to whether the Energy Program should be expanded or an Affiliate established. Nor would participation in the negotiations by any individual country commit that country to participate in an Affiliate if one were eventually to be set up. Moreover, as in the case of IDA, membership in any Affiliate could be expected to grow over time. Provision would need to be made to allow for the possibility that not all countries might be in a position to become members at the outset in the light of budgetary or other considerations.

Robert S. McNamara

OIL AND GAS PROJECTS APPROVED OR UNDER PREPARATION WITH PRIVATE OIL COMPANIES

Country	Project Description	Oil Company Involved	Project Financing (\$ Mil)					Estimated Incremental Production	Remarks
			Oil Company	Other Private	Government	Bank	Total		
Thailand	Development of gas field and associated infrastructures	Union Oil	300.0	330.0	77.0	107.0	807.0	50,000 bdoe	Union Oil is financing the development of the field. The Bank is financing a share of the transportation and distribution.
Pakistan	Oil exploration. Letters of cooperation signed with Gulf & BP and in preparation with Shell.	Gulf BP Shell	not applicable						Bank presence based on a letter of cooperation with no financial involvement in exploration but willingness to consider assistance in financing development.
Sudan	Development and distribution	Chevron	72.5	123.5	20.0	20.0	236.0	10,000 BD	Financing development of Chevron discovery for domestic markets. Financing plan not yet definite.
Ivory Coast	Development of newly discovered offshore oil field	Phillips/AGIP/SECO	120.0	60.0	60.0	60.0	300.0	50,000 BD	Sources of financing of Ivorian share are being sought. The proportion of "Other Private" and "Government" share may be different in final financing plan.
Senegal	Appraisal drilling	Possibly Chevron, Elf, Montenary, Wintershall and others		25.0		5.0	30.0	-	Bidding documents for acreage go out in September. Financing contingent on bidding, available early 1982.
Tanzania	Oil exploration	Shell	15.0	-	-	5.0	-	-	Loan to Shell Tanzania with guarantee arrangement by which Government covers political risk and Shell (Hague) commercial risk.
Argentina	Exploration and development sub-projects to be financed through development bank	Local Argentinian firms	-	-	-	100.0	100.0	NA	Local Argentinian firms usually operate exploration and development projects in association with foreign oil companies.
Chad	Production, transport and refinery	Conoco Chevron Shell Exxon	11.0	10.0	-	10.0	31.0	2,000 BD	This project was to be a joint venture of the Bank and Conoco, Chevron, Shell and Exxon. Other financing included \$30.0 million shared by IPC and the Islamic Development Bank and \$10.0 million bilateral aid. Project is in abeyance due to political situation in Chad.
Tunisia	Miskar offshore gas development	Elf Aquitaine	22.5	400.0	127.5	41.0	591.0	50,000 bdoe	Project deferred because of availability of gas from Algeria.

EXPLORATION PROMOTION ^{1/}

Honduras) These exploration promotion projects consist of all or some of the following components: reconnaissance seismic work, review of geological data, technical assistance to governments and national oil companies, and preparation of bidding documents.) 30 companies responded. 9 met bidding deadline.	3.0					Expected date of bidding is early '82. Selecting consultants.
Somalia			6.0					Expected date of bidding is early '82. Selecting consultants.
Liberia			5.0					Expected date of bidding is fall '81. Seismic survey underway.
Guinea Bissau			6.8					Expected date of bidding is fall '81. Seismic survey underway.
Madagascar			12.5					Negotiations underway with AGIP, Occidental, Amoco, Mobil, Cities Service, Montcrief, Texaco, Union, Elf Aquitaine.
Congo			5.0					The Government of Congo sold aeromagnetic survey for US\$2.3 million to Exxon. Government soon to complete agreement which will grant concession in the areas where survey was flown.
Mali			8.0					Project under preparation.
Mauritania) Phillips, Mobil, Chevron and Total negotiating.		2.9				6 bought offshore prospectus; 10 bought onshore prospectus	

^{1/} Additional exploration promotion projects under consideration in Ghana, Kenya, Equatorial Guinea, Caribbean Region, Panama, Nepal and Papua New Guinea.

Nationalities of Oil Companies

Union Oil	- American	SEDCO	- American
Gulf	- American	Elf Aquitaine	- French
BP	- British	Total	- French
Shell	- Dutch	Montcrief	- U.S.
Chevron	- American	Wintershall AG	- German
Phillips	- American	Montenary	- French
AGIP	- Italian	Mobil	- U.S.
Exxon/Esso	- U.S.	Texaco	- U.S.
Occidental	- U.S.	Cities Service	- U.S.

WORLD BANK LENDING AND CO-FINANCING IN THE ENERGY SECTOR, FY77-81

	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>Estimate FY81</u>	<u>Total FY77-81</u>
Bank Group Lending for Energy (US\$M)						
Electric Power	951.5	1,146.2	1,354.9	2,392.3	1,270.0	7,114.9
Oil & Gas	150.0	-	112.4	385.0	784.2	1,431.6
Coal & Coal Gasification	-	-	-	72.0	180.0	252.0
Fuelwood & Biomass	-	6.2	31.8	82.3	322.3	442.6
Refineries & Retrofitting	-	-	58.0	29.0	223.0	310.0
TOTAL	1,101.5	1,152.4	1,557.1	2,960.6	2,779.5	9,551.1
Number of Operations	18	21	27	44	39	149
Memo: Loans and Credits for Energy with Co-financing (US\$M)						
	<u>770.5</u>	<u>507.2</u>	<u>979.6</u>	<u>2,270.0</u>		
Number of Operations	12	12	18	29		
Co-financing by Source (US\$M)						
	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>Estimate FY81</u>	<u>Total FY77-81</u>
Official						
Bilateral	188.3	251.1	201.0	593.4	510.0	1,743.8
Multilateral	213.0	268.3	144.2	744.1	616.9	1,986.5
Export Credit	129.5	81.7	215.4	2,121.3	1,000.1	3,548.0
Private	363.0	88.0	126.9	749.7	1,204.9	2,532.5
TOTAL	893.8	689.1	687.5	4,208.5	3,331.9	9,810.8
Co-financing by Sub-Sector (US\$M)						
	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>Estimate FY81</u>	<u>Total FY77-81</u>
Electric Power	779.8	689.1	559.5	3,814.9	1,775.9	7,619.2
Oil & Gas	114.0	-	44.5	376.5	366.0	901.0
Coal & Coal Gasification	-	-	-	5.7	480.0	485.7
Fuelwood & Biomass	-	-	6.5	6.7	259.0	272.2
Refineries & Retrofitting	-	-	77.0	4.7	451.0	532.7
TOTAL	893.8	689.1	687.5	4,208.5	3,331.9	9,810.8
Co-financing by Source and Sub-Sector (US\$M)						
	<u>Official</u>	<u>Export Credit</u>	<u>Private</u>	<u>Total FY77-81</u>		
Electric Power	3,165.9	2,710.5	1,742.8	7,619.2		
Oil & Gas	106.5	481.5	313.0	901.0		
Coal & Coal Gasification	380.0	100.0	5.7	485.7		
Fuelwood & Biomass	22.2	-	250.0	272.2		
Refineries & Retrofitting	55.7	256.0	221.0	532.7		
TOTAL	3,730.3	3,548.0	2,532.5	9,810.8		

Note: The figures in this table underestimate the extent of the association of private finance with Bank Group lending for oil and gas because they do not include private financing of developments made possible in conjunction with a Bank Group loan but not included in the narrow definition of the project. For example, not included in these amounts is about US\$300 million for the cost of production facilities financed by Union Oil in conjunction with the Thailand Natural Gas Pipeline II project. Nor do the figures include, for example, private sector investments undertaken as a result of Bank financed oil exploration projects. The figures also do not include co-financing data for 33 small pilot fuelwood components in area and rural development projects, for 4 projects containing small biomass components, or for small components for retrofitting in industrial and DFC projects.

717/4/7

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi, Senior Vice President, Finance DATE: February 13, 1981
FROM: Colbert I. King, U.S. Executive Director
SUBJECT: U.S. Position on the World Bank Energy Affiliate

I have been requested by my authorities to convey the following position to you and the Executive Directors representing those countries which participated in informal Bank discussions on the proposed affiliate:

At this time, the United States can neither support the creation of nor participate in a new energy lending institution affiliated with the World Bank which would borrow from private capital markets on the basis of paid-in and guarantee capital and lend to LDC governments for energy development. However, the U.S. might be able to consider an appropriately-structured Bank energy entity at some more suitable time. No inference should be drawn from this regarding the eventual U.S. position on the proposed expansion of Bank energy lending. The U.S. continues to believe that expansion of energy production in the non-oil-producing developing countries, in which the Bank will play an important role, can reduce pressure on world oil markets, diversify world energy sources, and contribute to their economic growth.

If you have any questions about this matter, please do not hesitate to contact me.

cc: Mr. Robert S. McNamara
Mr. Y.S.M. Abdulai
Mr. John Anson
Mr. Earl G. Drake
Dr. Said El-Naggar
Dr. Jaime Garcia Parra
Mr. Eberhard Kurth
Mr. Hans Lundstrom
Mr. Paul Mentre de Loye
Mr. Seiji Morioka
Mr. H.N. Ray

7/17/4/13

A.2.03

Sections 5 and 6 from the Board memorandum on Means of Financing (December 1980), which discuss the Bank's need for callable capital and its lending authority under the Articles.

International Bank for Reconstruction and Development
International Development Association

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

For consideration on
January 15, 22 and
27, 1981

R80-356
IDA/R80-169

FROM: Vice President and Secretary

December 19, 1980

AN EXAMINATION OF POSSIBLE EXPANSION OF IBRD/IDA LENDING
OVER LEVELS PRESENTLY PLANNED FOR FY82-86 AND MEANS OF
FINANCING SUCH EXPANSION

Attached hereto is a copy of the President's memorandum entitled "An Examination of Possible Expansion of IBRD/IDA Lending over Levels Presently Planned for FY82-86 and Means of Financing Such Expansion" dated December 18, 1980.

This document also includes the President's memorandum "Possible Expansion of IBRD/IDA Lending Over Presently Planned Levels" distributed on November 14, 1980 under R80-325(IDA/R80-149).

Questions on this document should be referred to Mr. D. J. Wood (extension 75837).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

65. While these costs would not appear to be unreasonable, they are undoubtedly very uncertain. Moreover, they raise questions--relating to liquidity arrangements, new techniques of borrowing and possible changes in IBRD loan pricing--which need to be very carefully considered before actions based upon them are finally approved. Accordingly, the borrowing program associated with Scenarios B and C would need to be approached in stages. The stages would be so defined that, in the event difficulties in implementing the program were encountered, it would be possible to scale back commitments and avoid leaving the Bank in an exposed position.

66. In the final analysis, there can be no certainty about the volume of borrowing the Bank will be able to accomplish over the next few years or the costs of such borrowing. Experience has amply demonstrated how easy it is to under-estimate the capacity of capital markets to grow and change. Given the support of governments in capital-supplying countries and a willingness on the part of the Bank to adapt its borrowing techniques and loan pricing policies to the requirements of the markets, the borrowing programs associated with Scenarios B and C would seem sufficiently attainable to justify taking the first step.

Section 5: Callable Capital

67. The discussion of IBRD borrowing prospects assumed that the security offered creditors will continue to be sufficient to maintain the IBRD's prime credit standing in financial markets. This Section examines the implications of this assumption for the volume of callable capital the IBRD may require in future years to support its borrowing program. The analysis focuses on callable capital as one component of the security offered creditors and considers the extent to which other forms of security--notably, liquid assets and outstanding loans--may substitute for callable capital. The statutory requirement for capital laid down in the Articles of Agreement is considered separately in the following Section. The implicit assumption in the present discussion is that, if the Articles were to require additional capital sooner, or in larger volume, than would be necessary to maintain the IBRD's prime credit standing, the Articles could be amended.

68. The sources of security which IBRD creditors take into account have changed periodically throughout the Bank's history. In the initial years of operation the callable capital of the United States more than covered the Bank's outstanding borrowings. During the course of the 1970s the callable subscriptions of other industrial countries have proven to be a satisfactory basis for extending Bank borrowings well beyond the level of the US callable capital. Since the end of FY78, IBRD borrowings have exceeded the callable capital of

the Part I and capital-surplus oil-exporting countries, thus implying that investors have been relying, at least in part, on sources of security other than the guarantees of countries traditionally regarded as "relevant" by the financial markets.

69. One form of additional security is the Bank's liquid holdings, though these of course are also available to meet disbursement obligations. Another is its loan portfolio. A third is the callable capital subscriptions of Part II countries other than the capital-surplus oil-exporters. While the first of these additional sources is likely to be readily accepted by creditors at full market value, the other two sources would be discounted to some extent even though the Bank has never had a loss on its loans. Although creditors might well agree in principle that the IBRD loan portfolio has a significant value, they have not had to assign a value to it in the past and could be expected to discount its value very considerably at the outset.

70. There is no satisfactory way of assessing how rapidly creditors could be persuaded to assign a value to the Bank's claims on Part II countries or what discount factor they might apply. The following table illustrates the implications of four alternative assumptions. The first is that creditors accept liquid assets at full value but assign no value at all to Bank claims on Part II countries other than the callable capital of the capital-surplus oil-exporting countries. The second is that 25% of the loan portfolio is accepted in addition to liquid holdings. The third is that 50% of outstanding loans is eventually accepted as security by creditors, while in the fourth case creditors are assumed to accept two-thirds of the outstanding loans and one-quarter of the callable capital subscribed by developing countries other than the capital-surplus oil-exporters.

Projected IBRD Debt and Potential Sources of Security
(\$ billion)

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
<u>Projected IBRD Debt</u>									
Scenario A	37.2	42.3	48.2	53.4	59.3	65.1	73.4	81.0	89.1
Scenario B	40.9	49.0	59.5	70.5	83.3	96.9	114.0	132.2	150.8
Scenario C	38.8	45.1	52.9	60.4	68.9	77.9	89.8	102.0	114.5

Sources of Security: Case I (70% of Callable Capital a/ + Liquid Holdings)

Scenario A	43.9	49.8	55.8	60.9	66.1	66.2	68.0	69.2	70.8
Scenario B	47.4	54.9	62.8	69.4	75.7	76.3	78.9	82.2	85.5
Scenario C	45.4	51.8	58.5	64.3	70.0	70.3	72.6	74.8	77.1

Sources of Security: Case II (70% of Callable Capital a/ + Liquid Holdings + 25% of Disbursed Loans)

Scenario A	52.6	59.8	67.3	74.1	80.8	82.6	86.1	89.2	92.8
Scenario B	56.1	65.3	75.0	84.4	93.7	97.6	103.8	111.0	118.3
Scenario C	54.1	62.0	70.5	78.2	86.0	88.5	93.3	98.2	103.2

Sources of Security: Case III (70% of Callable Capital a/ + Liquid Holdings + 50% of Disbursed Loans)

Scenario A	61.3	69.8	78.8	87.2	95.5	99.0	104.2	109.2	114.8
Scenario B	67.8	75.7	87.6	99.4	111.7	118.9	128.7	139.8	151.1
Scenario C	62.8	72.2	82.5	92.1	102.0	106.7	114.0	121.6	129.3

Sources of Security: Case IV (77.5% of Callable Capital + Liquid Holdings + 66.7% of Disbursed Loans)

Scenario A	70.7	80.6	91.2	101.2	111.0	115.7	122.0	128.3	135.2
Scenario B	74.2	86.8	100.6	114.6	129.4	138.8	151.0	164.7	178.7
Scenario C	72.2	83.1	95.0	106.6	118.4	124.6	133.5	142.9	152.4

a/ Seventy percent of callable capital is equal to the callable capital of Part I countries and capital-surplus oil-exporting countries. The figures assume full subscription to the GCI.

71. In Scenario A no callable capital beyond the General Capital Increase would be required until FY88 even under the most conservative assumption. If creditors accepted as little as 25% of the loan portfolio as security, there would be no need for additional callable capital on financial grounds before the end of the decade.

72. In Scenario C, the most conservative assumption would imply a requirement for additional callable capital in FY87, a date which would be deferred by two years in Case II and beyond the end of the decade in Cases III and IV. As expected, the requirements for additional callable capital arise earlier in Scenario B: in FY85 on the most conservative assumption, in FY88 in Case II and after FY90 in Cases III and IV. The differences between Scenarios B and C presume, of course, that the callable capital requirements associated with the establishment of an Energy Affiliate are handled separately. The preliminary work which has been done on the capital structure of an Energy Affiliate suggests that total capital on the order of \$10 to \$15 billion may be needed to support the operations envisaged for the first five years or so, and that 90% of this might take the form of callable capital.

73. These illustrative calculations can only serve as a framework within which judgement must be applied. Moreover, such judgment should take account of the important "intangibles" which shape the markets' perceptions of the Bank as much or more than the details of its balance sheet. Strong member government support for the Bank, symbolized in ways such as access to markets and perhaps re-inforced through lines of credit or other liquidity arrangements, is the most crucial "intangible". But the demonstrated willingness of borrowing governments to support changes in Bank financial policies when these are required to maintain a strong financial position is also important. Given these forms of support, the Bank should be able to maintain a prime credit standing in circumstances similar to those projected in Case III or even Case IV. For planning purposes, however, it seems prudent to make conservative assumptions about the adaptability of the financial markets over the next several years and about our ability to persuade creditors (and rating agencies) of the value of the Bank's assets other than callable capital. This means that some addition to callable capital might be desirable before the end of the decade. If an expanded lending program were approved and an Energy Affiliate established, the first claim for callable capital would be for the Affiliate itself, and could amount to \$9 to \$13.5 billion in F82-84.

Section 6: Lending Authority under the Articles

74. The present Articles of Agreement do not limit the volume of IBRD borrowing. What they do limit is the volume of IBRD lending: outstanding loans must not exceed the total of subscribed capital and reserves.^{1/} As a result, the Bank has a need for capital on legal

^{1/} Article III, Section 3 (entitled "Limitations on Guarantees and Borrowings of the Bank") states that "the total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank."

grounds which is only loosely related to its need for capital on purely financial grounds. This Section considers how the statutory requirement for capital has come to be applied in IBRD operations and examines ways in which the legal and financial requirements for capital might be brought more closely into line.

75. Commitment Limit, Disbursement Limit and "Steady State" Lending. The date when disbursed loans would exceed the statutory limit in the event there were no further capital increase has been called the "disbursement limit". Since the Bank must clearly avoid a situation in which it reaches the "disbursement limit" and still has unfulfilled commitments to disbursements, and since new commitments are only disbursed over a period of years, new commitments have to be stopped well in advance of the "disbursement limit"--normally two to three years in advance. This earlier date, known as the "commitment limit", is an estimate of the point in time when the Bank would run out of new commitment authority altogether. The effect of the statutory limit on lending, therefore, is to require the Bank to obtain capital sufficient to cover the peak level of disbursed loans at least two or three years before that peak would be reached on a disbursed basis.

76. During the negotiations for the Selective Capital Increase in early 1976, the Executive Directors, acting on a management recommendation, formally approved a more restrictive policy which provided that Bank operations should "be planned in a way that, in the absence of....a further [capital] increase, future adjustments of plans [would not be] so large as to substantially distort or disrupt operations." ^{1/} This understanding has subsequently been applied in the following way: a level of IBRD lending which can be sustained indefinitely with the capital already subscribed is calculated (the so-called "steady state" level of lending). IBRD lending is permitted to exceed the "steady state" level if it can subsequently be brought down to a sustainable level without causing "disruption". During the negotiations of the General Capital Increase various definitions of "non-disruptive adjustment" were discussed, ranging from no decrease

^{1/} Summary of Understandings Related to IBRD Operating and Financial Plans, SecM76-335, dated May 10, 1976.

at all in nominal terms to a decrease of 25% in nominal terms spread over four years. The intention behind this policy was to avoid a situation in which member governments would either have to approve an increase in capital for the IBRD or accept a disruptive adjustment in IBRD operations. Its practical effect is to require the Bank to secure additional capital from shareholders before it is needed on financial grounds.

77. The following table summarizes these key dates for the three Scenarios we are examining. The table assumes that the General Capital Increase is subscribed in full. The "steady state" level of lending has been calculated assuming no relaxation of repayment terms as compared to those now being applied on new loans.

Lending Authority Dates

	<u>"Steady State" Level Reached</u>	<u>"Non-Disrup- tive Adjustment" Limit Reached a/</u>	<u>Commitment Authority Cut-off Date</u>	<u>Disbursement Cut-off Date</u>
Scenario A	FY87	FY88	FY90	FY92
Scenario B	FY83	FY83	FY86	FY88
Scenario C	FY85	FY86	FY87	FY89

a/ Assumes that a decrease of 25% in nominal terms spread over four years would not be disruptive.

The dates shown suggest that if the program is limited by the application of a policy of not exceeding "steady state" lending, the Bank would be forced to obtain additional capital (or curtail lending) two or three years before it is needed on financial grounds, even if quite conservative estimates of financial requirements are used.

78. On the other hand, the statutory limit itself implies a timing for future capital increases which is broadly equivalent to Case II discussed in the previous Section (para. 74). The implication of this equivalence is that liberalization of the statutory limit (or what the Brandt Commission has called the "gearing ratio") will permit the Bank to make do with less callable capital as and when creditors accept more than 25% of the IBRD loan portfolio as prime security. 1/

1/ In this connection it may be noted that in the early years of the Bank, when the callable capital of the United States represented the principal source of convertible currency in the event of a call, the limit on IBRD loans outstanding was roughly 2.5 times what would then have been regarded as "relevant" capital.

79. At times, discussion of the statutory limit has tended to assume that amendment of the Articles by itself will increase the Bank's capacity as a financial intermediary. Amendment is of course a necessary condition for economizing on callable capital in the long run, but to be fully effective in the next several years, it would have to be preceded by a campaign to educate creditors to the value of the Bank's claims on Part II members. Moreover, amendment of the Articles cannot be accomplished in less than two or three years.

80. What could be important for near-term planning if the Energy Affiliate were not to go forward would be to review the understanding on how the "non-disruptive" policy is to be applied. This policy is not based upon statutory or financial concerns. Its purpose is to avoid putting member governments under political pressure to approve further capital increases. If there were no cost involved in supplying capital prior to the time it is needed on financial grounds, this policy would raise no question. But the fact is there are costs to acquiring additional capital, even if it is only callable capital. What needs to be reconsidered is whether these costs of supplying capital earlier and in greater volume are worth paying merely in order to avoid future pressures of a political kind. It is worth noting in this connection that the other multilateral development banks, as well as IDA, are now authorized to make commitments up to the point where their full commitment authority is exhausted, even though this means that delay in approval of additional resources forces them to stop new commitments altogether.

Section 7: Conclusions and Points for Discussion

81. This review of the possible means of financing an expanded IBRD/IDA lending program has tried to quantify the costs and identify the principal risks which could arise in connection with such financing. The main points are as follows:

IDA Contributions. Constraints on likely IDA availabilities may be taken into account by:

- (a) shifting \$3.3 billion in planned lending from IDA to IBRD terms;
- (b) reducing the expanded lending program by \$1.5 billion.

717 / 4/12

A.2.04

Memorandum on Criteria for Selective Capital Increases
circulated to the Executive Directors in November 1980
(Board discussion to be scheduled)

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

For consideration on
December 23, 1980

R80-326

FROM: Vice President and Secretary

November 18, 1980

CRITERIA FOR SELECTIVE CAPITAL INCREASES

Attached hereto is a memorandum from the President entitled "Criteria for Selective Capital Increases" dated November 18, 1980.

Questions on this document may be referred to Mr. Applegarth (Extension 75765).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

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

November 18, 1980

Office of the President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

SUBJECT: Criteria for Selective Capital Increases

Section 1. Introduction and Summary

1. At their meeting on August 8, 1980, the Executive Directors agreed to a proposed 4,500 share increase in China's capital subscription to the IBRD, but deferred a decision on a series of Selective Increases proposed for other member countries. Before proceeding with these other increases, the Executive Directors wished to review the criteria which would govern future Selective Increases and--on the basis of approved criteria--to offer all members the opportunity to apply for Selective Increases. This memorandum seeks to provide the basis for the review and for the establishment of agreed criteria.

2. The first part of the memorandum considers the objectives to be served by Selective Increases. Using the recent memorandum on Criteria for Selective Capital Increases (R80-191, dated July 1, 1980) as its starting point, the present memorandum reaffirms the basic principle that relative subscriptions in the Bank ought to reflect the relative positions of member countries in the world economy. On the assumption that calculated quotas ^{1/} in the IMF are accepted as a device for assessing relative economic and financial positions, the issue for the Bank becomes one of deciding how promptly shifts in countries' relative positions as measured by calculated quotas ought to be reflected in shifts in countries' relative subscriptions to the IBRD. Our present practice is that shifts in actual quotas agreed in the IMF are matched by corresponding allocations of Selective Increases in the IBRD. Our practice is less clear as to whether, and on what grounds, adjustments in the Bank might proceed more rapidly than in the IMF. The memorandum identifies and examines one situation which might justify a more rapid adjustment, namely, as a response to countries that in their relationship with the World Bank Group have demonstrated a willingness to shoulder responsibilities commensurate with their relative positions in the world economy.

1/ The concept of calculated quotas is explained in the Annex.

3. Section 3 then takes up three issues which arise in defining specific criteria that would achieve the purposes outlined in Section 2. The first of these issues is how to identify countries providing special support to the Bank Group, the second concerns the pace of adjustment for such countries, and the third is how to keep the size of Selective Increases--either in total or for individual members--from producing unacceptable shifts in the relative positions of member countries.

4. Section 4 enlarges upon the general principles discussed in the two earlier sections by describing a series of specific criteria for determining Selective Increases and by indicating the main consequences likely to flow from the adoption of such criteria. The concluding section of the memorandum then pulls together the preceding discussion and recommends criteria for future Selective Increases.

Section 2. Purpose of Selective Increases

5. The fundamental objective of the Bank's past policy with regard to Selective Increases has been to maintain a correspondence between member countries' subscriptions to the capital of the IBRD and their relative positions in the world economy. The means employed to achieve this objective has been the policy of parallelism with the IMF, i.e., the policy of offering IBRD members the opportunity to increase their subscriptions in the Bank, when a Selective Increase in their quotas is agreed in the Fund.

6. The various reasons that have justified the use of parallelism in the past continue to be valid. It is desirable from the point of view of the Bank as well as its members to retain parallelism as an important element of Bank policy. It is therefore recommended that this practice be reaffirmed by the Executive Directors.

7. If Bank policy were to stop here, the pace of adjustment of Bank capital subscriptions to changes in member countries' relative economic and financial positions would generally be the same as the pace followed in the Fund. The issue for the Bank is whether, and under what circumstances, it might wish to make adjustments at a rate different from that adopted by the Fund.

8. One type of situation which might justify a more rapid adjustment is the one emphasized in the July memorandum:

- 3 -

"Selective increases which have not been preceded by action in the Fund seem most justified in recognition of actions of member countries that are specially supportive of the objectives of the Bank Group..." 1/

Perhaps the clearest illustration of this type of situation was the Selective Increase authorized for Japan in February 1979 (R79-29, dated February 22, 1979). It is well to emphasize that such Selective Increases do not represent a "reward" for services rendered to the Bank Group. Rather they reflect the common-sense notion that if a country is willing to move rapidly to shoulder the responsibilities associated with a more important position in the world economy, it has a good case for expecting that the pace of adjustment in its IBRD capital subscription to the same shifts in economic position will be relatively rapid as well.

Section 3. Issues in the Design of Criteria

9. Each of the two purposes which have been identified
- to maintain parallelism with agreed quotas in the IMF
 - to accelerate the pace of adjustment for countries especially supportive of the Bank Group

has been invoked at one time or another in the past as a reason for proceeding with Selective Increases. Three issues arise in trying to translate these purposes into specific criteria. One is how to identify countries especially supportive of the Bank Group. A second is how to regulate the pace of adjustment for such countries, and the third is how to reconcile the potentially large claims for individual countries under these criteria with the desirability of avoiding abrupt shifts in the relative positions of members.

10. Defining Special Support. The July Board memorandum opted for a flexible approach in this regard. It noted that it was "...impossible to establish any sort of mechanical link between a country's economic situation, the support provided by it to the Bank Group, and the amount of the selective capital increase. One cannot list in advance all the criteria that might be relevant, although some illustrative examples of specific support can be provided. Exceptional contributions to IDA would figure prominently among them. Official long-term lending to the Bank could also constitute a valid consideration. Other types of support might

1/ R80-191, dated July 1, 1980, para. 9.

- 4 -

also be relevant. The merits of eligible requests would have to be considered on a case by case basis; and all capital increases would be subject to approval by the Bank's Board of Governors." 1/

11. There is not--nor should there be--a definitive list of countries that qualify for Selective Increases on grounds of special support for the Bank. For purely illustrative purposes, the projections described in the next section consider two groups of countries: the first, a small group restricted to the four countries (Korea, Kuwait, Saudi Arabia and the United Arab Emirates) for whom Selective Increases were recommended in the July memorandum, 2/ and the second, a larger group of 40 countries that have undertaken official long-term lending to the Bank or contributed to IDA Replenishments. It must be emphasized that both lists are only illustrative; the eventual choice of countries for Selective Increases on grounds of special support (from among those who apply under this criterion) must reflect a judgement about these countries' support.

12. Pace of Adjustment. The earlier Board memorandum took a country's "calculated subscription" 3/ in the Bank as being the upper limit of what it could be allocated through Selective Increases. The use of 100% of "calculated subscriptions" as a basis for determining Selective Increases is somewhat arbitrary. If a lower basis were used--say 80% or 90% of "calculated subscriptions"--this would have the effect of reducing the size of Selective Increases allocated to members under the "special support" criterion. It would also sharply reduce or eliminate the allocations for some countries whose actual subscriptions are relatively close to their "calculated subscriptions." The projections in the next section show the impact of reducing the basis from 100% of "calculated subscriptions" to 80%.

1/ R80-191, dated July 1, 1980, para. 9.

2/ These four countries were included in the July memorandum because they requested increases in response to a memorandum from the President (R79-57, dated March 21, 1979) asking that the Bank be notified of such requests. Their inclusion in a separate list is not intended to reflect a judgement about their support relative to other countries which might qualify as "specially supportive", or to each other.

3/ "Calculated subscriptions" in the Bank are derived by multiplying the Bank's total authorized capital by the ratio of each country's "calculated quota" in the Fund to the total of "calculated quotas." See Annex.

13. Size of Increases. The expressed intention of the Executive Directors is to develop agreed criteria and then to permit all members an opportunity to apply for Selective Increases under those criteria. Since there is bound to be some uncertainty about which member countries will in fact avail themselves of the opportunity presented, the overall size of increase in authorized capital necessary to accommodate the requested Increases cannot be known precisely in advance.

14. The potential size of the increase in authorized capital will depend critically on the design decisions already discussed as well as on the treatment accorded the larger countries which would qualify for Selective Increases on grounds of special support. The potential Increases which could be allocated to such countries if it were decided to bring them up to 100% of their "calculated subscriptions" would exceed 160,000 shares if all countries that have provided long-term capital to the Bank or contributions to IDA were to apply. Ten countries in particular could be allocated in excess of 5,000 shares each: France, Germany, Japan, Belgium, Canada, Iran, Italy, the Netherlands, Saudi Arabia and Sweden.

15. The issue is how to reconcile the potentially large claims for these countries with the desirability of avoiding abrupt shifts in the relative positions of members. A case can be made for treating France, Germany and Japan as special; the relationships among these countries were reviewed as recently as March 1979 in connection with the Selective Increases approved for Japan and France, and the countries may wish to allow the position that emerged from that review to continue undisturbed. The criteria illustrated in the next section of this memorandum include France, Germany and Japan as countries eligible for Selective Increases in some of the alternative cases examined, but assume that they will not, at this time, decide to request the Selective Increases for which they might qualify.

16. The remaining countries pose a rather different problem, since their relative positions have not been subject to recent review, nor are there traditional arrangements for considering the acceptability of shifts in their positions relative to other members. The July memorandum dealt with this particular problem by proposing that there be a "cap" limiting any country's Selective Increase to 25% of its actual subscription. This continues to be a feasible way of dealing with the problem. In addition, however, it is worth considering an alternative in which the claims of all members requesting Selective Increases are scaled down proportionately in order to keep the overall size of the increase in capital within broadly acceptable limits and to avoid abrupt shifts in the relative positions of members.

17. Three such constrained alternatives (described in more detail in para. 20 below) are presented for illustrative purposes. They assume that

the total increase in authorized capital is limited to 21,000 shares. 1/ Such an increase could be justified on a variety of grounds; notably, as being just sufficient to accommodate China (both the 4,500 shares recently approved and the roughly 11,200 shares needed to keep China in line with other members during the General Capital Increase), to provide 250 "membership shares" for each of several new members and to provide a small reserve for contingencies. An increase of 21,000 shares would also mean that, after allowing for China and new members, there would again be about 25,000 shares available for Selective Increases--in line, in other words, with the understanding reached at the time the General Capital Increase was approved. While increases in authorized capital larger than 21,000 shares could provide welcome flexibility for the Bank in responding to requests for Selective Increases under various criteria--and indeed are essential if "requests" under the "special support" criterion are to be met in full--they carry the risk of triggering defensive reactions on the part of members who wish to avoid the relative shifts thereby made possible.

Section 4. Implications of Alternative Criteria

18. Claims under the Brazil-Yugoslavia Precedent. Before proceeding to present the results of applying specific alternative criteria, a brief account may be given of claims for Selective Increases under the Brazil-Yugoslavia precedent. The background to these claims was set out in a Board memorandum on the subject distributed to the Executive Directors earlier this year. 2/ Briefly, the purpose of these Selective Increases is to permit the countries concerned to make up for an initial shortfall in their IBRD subscriptions. There are 22 countries in this category, of which 17 have already requested Selective Increases. The table below lists all 22 countries, the number of additional shares that would be required in each case now to eliminate the disparity between Bank subscriptions and Fund quotas, and the further increases that would be appropriate under the principles adopted for the GCI:

1/ 18,500 shares are added to the IBRD capital used for ordinary subscriptions, bringing the total to 690,000 shares. In addition, 2,500 "membership shares" are added to the 33,500 shares available for this purpose, in order to accommodate new members.

2/ Special Increases in Certain Subscriptions to Capital Stock of the Bank under the Brazil-Yugoslavia Precedent (R80-236, dated August 1, 1980).

- 7 -

Member	Required Increases in Shares		
	Needed Now	Additional Needed after GCI	Total
1. Bolivia	104	97	201
2. Chile	533	499	1032
3. Colombia	402	376	778
4. Costa Rica	204	191	395
5. Dominican Republic	274	256	530
6. Ecuador	204	191	395
7. Egypt	213	199	412
8. El Salvador	210	197	407
9. Ethiopia	148	139	287
10. Greece	566	530	1096
11. Guatemala	250	234	484
12. Honduras	169	158	327
13. Iran	193	181	374
14. Iraq	288	270	558
15. Mexico	1214	1136	2350
16. Nicaragua	168	157	325
17. Panama	152	142	294
18. Paraguay	118	110	228
19. Peru	402	376	778
20. Suriname <u>a/</u>	42	39	81
21. Uruguay	168	157	325
22. Venezuela	<u>1616</u>	<u>1513</u>	<u>3129</u>
	<u>7638</u>	<u>7148</u>	<u>14786</u>

a/ Suriname is not an original member of the Bank. However, its initial Bank subscription was lower than its Fund quota, because its initial Fund quota reflected the Sixth Review of Quotas, while its initial Bank subscription did not.

19. Implications of Alternative Criteria. Attached to this memorandum are tables that show the results of applying seven different sets of criteria for Selective Increases. The assumptions made in each of the seven cases are stated below, 1/ along with a brief summary of the principal implications:

1/ All seven cases assume no exercise of preemptive rights by members with regard to increases in authorized capital. If preemptive rights are in fact exercised by any member or members, the share allocations and resulting voting power shown in the attached tables would change.

Case 1 assumes that the Brazil-Yugoslavia precedent claims are granted in full, and in addition enough shares are allocated to countries that have provided special support to the Bank Group and have actual subscriptions below "calculated subscriptions" so as to bring their subscriptions up to 80% of "calculated" levels. The list of such countries is assumed to be limited to the four countries placed in this category in the July Board memorandum (Korea, Kuwait, Saudi Arabia, and the United Arab Emirates). Kuwait receives no increase in this case, however, since its actual subscription is above 80% of its "calculated subscription." This case would involve an increase in authorized capital of approximately 20,000 shares. ^{1/} Saudi Arabia would receive the largest increase (8576 shares).

Case 2 uses the same criteria as Case 1, i.e. the Brazil-Yugoslavia Precedent and Special Support with 80% of "calculated subscriptions" as the standard, but extends the list of eligible countries under the latter criterion to include all countries that have provided long-term capital to the Bank or contributions to IDA Replenishments. It is assumed that Germany and Japan choose not to request Increases (France would be excluded because its actual subscription exceeds 80% of its "calculated subscription"). This case would require an increase in authorized capital of approximately 37,000 shares. Several countries, notably Saudi Arabia, Iran and the Netherlands, would receive large increases.

Case 3 assumes that the Brazil-Yugoslavia precedent claims are granted in full, together with Selective Increases to countries that have provided special support --limited to Korea, Kuwait, Saudi Arabia and the United Arab Emirates-- sufficient to raise their actual subscriptions to 100% of "calculated" levels. This case would require an increase in authorized capital of approximately 28,000 shares.

Case 4 assumes the same criteria as Case 3, i.e. the Brazil-Yugoslavia Precedent and Special Support with 100% of "calculated subscriptions" as the standard, but as in Case 2 extends the list of eligible countries to include all countries that have provided long-term capital to the Bank or contributions to IDA. Once again it is assumed that France, Germany and Japan choose not to request increases. This is the case that would require the largest increase in authorized capital, approximately 106,000 shares. Large increases would go to Saudi Arabia, the Netherlands, Iran, Italy, Belgium, Canada and Sweden.

^{1/} All the figures cited in this section referring to authorized capital assume that China is granted the same GCI increase (i.e. 93.6% unscaled) as all other members. Also the figures refer only to ordinary share capital; "membership shares" are assumed to increase to 36,000 in all cases.

20. The cases discussed so far are all unconstrained cases, in that Selective Increases are allocated to the full extent indicated under the criteria. As noted in the previous section, it would also be possible to constrain the number of shares allocated for Increases. This can be done in a variety of ways. Purely for illustrative purposes, Cases 5 and 6 show what the allocations might look like under the assumption that the increase in authorized capital is limited to 18,500 shares, and that the allocations shown for Cases 3 and 4 above are scaled back pro-rata so as to remain within this ceiling. Case 7 presents the results of a similar adjustment for the allocations in Case 2.

Section 5. Conclusions and Recommendations

21. The choice among alternative criteria for future Selective Increases should take account of the fact that circumstances can change substantially in the future. While it is obviously essential that agreed criteria produce results that are generally acceptable in current conditions, they should be sufficiently flexible to permit the Bank to adapt to future conditions as well. It is this objective which lies behind our principal recommendations, namely to continue to use parallelism as the primary guide, but in exceptional circumstances to deviate from parallelism in the short run by using special support for the Bank Group as a basis for moving subscriptions towards "calculated subscriptions."

22. Parallelism with actual quota increases is a straightforward standard for Selective Increases. It has worked well in the past and raises no problems of implementation. In addition, we recommend that the claims for Selective Increases under the Brazil-Yugoslavia precedent be acceded to in line with previous practice.

23. The choice of a benchmark for determining Selective Increases for countries that are especially supportive of the Bank Group is somewhat arbitrary. Adoption of 100% of "calculated subscriptions" as the standard, rather than a lower figure, would reflect a desire to be responsive to all eligible countries that have a potential claim based on parallelism with "calculated quotas." If a lower basis were used--say 80% of "calculated subscriptions"--this would have the effect of reducing the size of Selective Increases allocated to members and would moderate the shifts in the relative positions of member countries associated with the use of this criterion. It would also sharply reduce or eliminate the allocations for some countries whose actual subscriptions are relatively close to their "calculated subscriptions." On balance, and in view of the fact that "calculated quotas" are necessarily an imprecise measure of countries' relative positions in the world economy, we recommend that a limit of 80% of "calculated subscriptions" be used for this round of Selective Increases.

24. Another question that the Executive Directors need to address is whether the requests for allocation of shares under the various criteria should be met in full or rationed. On the assumption that France, Germany and Japan choose not to request Selective Increases, the increase in authorized capital needed to accommodate all other potential requests under a 80% benchmark for countries providing special support (Case 2) would not exceed 37,000 shares, or 6% of currently authorized capital. Actual requests could, of course, be substantially less. This magnitude of adjustment would not appear to be so large as to require rationing--at least at this stage. Thus it is recommended that the Executive Directors defer consideration of any rationing of share allocations until all requests for Selective Increases have been received. A period of three months from the date of Board decision may be allowed for such requests to be filed.

25. Finally, as recommended in the July memorandum, the timing of Selective Increases may be so arranged that they take place immediately after quota reviews in the Fund, which would normally be once every five years, and in addition once approximately midway through the five-year period. Thus once the present review is completed, the next round of Selective Increases would be considered only after the Eighth Review of Quotas. Further, it may be provided that member countries should be eligible for Selective Capital Increases under the new criteria only if they have taken up all shares still available to them under earlier capital increase resolutions.

26. To sum up, the recommendations are:

- (a) to consider a country eligible for Selective Increases if the country has subscribed to all IBRD shares available to it, and:
 - (i) it qualifies for a Selective Increase under the Brazil-Yugoslavia precedent;
 - or (ii) its agreed quota is increased as a result of a quota review in the Fund;
 - or (iii) it is especially supportive of the Bank Group and its existing subscription is less than 80% of its "calculated subscription."
- (b) the determination of whether a country is eligible under test (ii) would be made by the Executive Directors from time to time on the basis of recommendations put forward by management and in light of the country's overall

relationship with the Bank Group. The distinguishing characteristic of special support would be a country's demonstrated willingness to shoulder responsibilities vis-a-vis the Bank Group commensurate with its role in the world economy.

- (c) Selective Increases should in the future be taken up immediately after quota reviews in the Fund, and in addition once approximately midway between such reviews.

Robert S. McNamara

DERIVATION OF "CALCULATED QUOTAS" AND "CALCULATED SUBSCRIPTIONS"

1. Quota increases in the Fund are the end result of a process that commences with the preparation by Fund staff of sets of quota calculations based on recent economic data, using various formulae constructed for this purpose. The results of several of these formulae are then combined to determine a "calculated" quota for each member. The Fund staff also prepares tables indicating the divergence between calculated quotas and the actual quotas as a result of previous increases. These tables and calculations then form the basis of the quota negotiations that end with a set of "agreed" quotas approved by the Fund's Governors.

2. For purposes of parallel action in the Bank, the common component (percentage), if any, of quota increases for all countries is regarded as a general increase, and the balance is regarded as a selective increase for the countries concerned. Although the principal purpose of special increases in Fund quotas is to adjust the relative positions of individual member countries to reflect changes in their positions in the world economy, the "agreed" quotas are arrived at on the basis of a number of considerations which include, but are not confined to, the relative financial and economic standing of countries indicated by the quota calculations. 1/ Quota reviews are required at intervals of not more than five years, 2/ and the "agreed" quotas become the actual quotas when countries subscribe to them.

1/ In the past these considerations have included:

- (i) to give certain developing countries access to more conditional liquidity in the Fund (prior to Fifth General Review of Quotas, 1970);
- (ii) to meet the needs of the Fund for additional resources through special increases granted to industrial countries (Fourth Review of Quotas, 1965).

2/ The Seventh Review of Quotas took place in 1978, only three years after the previous review.

3. Once the calculated quotas in the Fund are known, calculated subscriptions in the Bank can be derived by multiplying the Bank's total authorized capital by the ratio of each country's calculated quota in the Fund to the total of calculated quotas. In arriving at calculated subscriptions for the purposes of this memorandum, the calculated quotas used are those from the Seventh Review of Quotas, adjusted to take account of the subsequent calculations for new members as well as for China. Further, the "membership" shares (250 per country) allocated as part of the General Capital Increase have been excluded from the Bank's total authorized capital for purposes of this calculation. Differences between the figures presented in this memorandum and those in the July memorandum are attributable to these two adjustments.

FOR ILLUSTRATIVE PURPOSES ONLYTABLE 1

Page 1

IBRD: ESTIMATED SELECTIVE INCREASES
UNDER DIFFERENT CRITERIACASE 1

<u>Brazil-Yugoslavia Precedent</u>	<u>Additional Shares</u>
Bolivia	201
Chile	1032
Colombia	778
Costa Rica	395
Dominican Republic	530
Ecuador	395
Egypt	412
El Salvador	407
Ethiopia	287
Greece	1096
Guatemala	484
Honduras	327
Iran	374
Iraq	558
Mexico	2350
Nicaragua	325
Panama	294
Paraguay	228
Peru	778
Suriname	81
Uruguay	325
Venezuela	3129
	<u>14786</u>
<u>Special Support (80% Standard)</u>	
Korea, Republic of	842
Saudi Arabia	8576
United Arab Emirates	1979
	<u>11397</u>

TABLE 1
Page 2

CASE 2

<u>Brazil-Yugoslavia Precedent</u>	<u>Additional Shares</u>
Bolivia	201
Chile	1032
Colombia	778
Costa Rica	395
Dominican Republic	530
Ecuador	395
Egypt	412
El Salvador	407
Ethiopia	287
Greece	1096
Guatemala	484
Honduras	327
Iran	374
Iraq	558
Mexico	2350
Nicaragua	325
Panama	294
Paraguay	228
Peru	778
Suriname	81
Uruguay	325
Venezuela	<u>3129</u>
	<u>14786</u>

(continued)

<u>Special Support (80% Standard)</u>	<u>Additional Shares</u>
Austria	336
Belgium	1771
Denmark	305
Iran	3798
Italy	913
Korea, Republic of	929
Libyan	1554
Netherlands	3646
Nigeria	717
Norway	190
Oman	549
Saudi Arabia	9057
Spain	298
Sweden	2061
Trinidad and Tobago	465
United Arab Emirates	<u>2080</u>
	<u>28669</u>

CASE 3

<u>Brazil-Yugoslavia Precedent</u>	<u>Additional Shares</u>
Bolivia	201
Chile	1032
Colombia	778
Costa Rica	395
Dominican Republic	530
Ecuador	395
Egypt	412
El Salvador	407
Ethiopia	287
Greece	1096
Guatemala	484
Honduras	327
Iran	374
Iraq	558
Mexico	2350
Nicaragua	325
Panama	294
Paraguay	228
Peru	778
Suriname	81
Uruguay	325
Venezuela	<u>3129</u>
	<u>14786</u>
<u>Special Support (100% Standard)</u>	
Korea, Republic of	1778
Kuwait	1088
Saudi Arabia	13743
United Arab Emirates	<u>3067</u>
	<u>19676</u>

CASE 4

<u>Brazil-Yugoslavia Precedent</u>	<u>Additional Shares</u>
Bolivia	201
Chile	1032
Colombia	778
Costa Rica	395
Dominican Republic	530
Ecuador	395
Egypt	412
El Salvador	407
Ethiopia	287
Greece	1096
Guatemala	484
Honduras	327
Iran	374
Iraq	558
Mexico	2350
Nicaragua	325
Panama	294
Paraguay	228
Peru	778
Suriname	81
Uruguay	325
Venezuela	<u>3129</u>
	<u>14786</u>

(continued)

<u>Special Support (100% Standard)</u>	<u>Additional Shares</u>
Austria	2402
Belgium	7662
Brazil	3626
Canada	6491
Denmark	2236
Finland	815
Greece	366
Iran	9413
Ireland	162
Italy	8538
Korea, Republic of	2277
Kuwait	1901
Libyan	3274
Netherlands	10530
Nigeria	3101
Norway	1995
Oman	892
Portugal	580
Saudi Arabia	16500
South Africa	769
Spain	3685
Sweden	5474
Trinidad and Tobago	1118
United Arab Emirates	3647
Yugoslavia	636
	<u>98090</u>

CASE 5Constrained Case: All claims scaled down equally.

<u>Brazil-Yugoslavia Precedent and Special Support (100% Standard)</u>	<u>Additional Shares</u>
Bolivia	154
Chile	789
Colombia	595
Costa Rica	302
Dominican Republic	405
Ecuador	302
Egypt	315
El Salvador	311
Ethiopia	219
Greece	838
Guatemala	370
Honduras	250
Iran	286
Iraq	427
Korea, Republic of	1315
Kuwait	760
Mexico	1796
Nicaragua	248
Panama	225
Paraguay	174
Peru	595
Saudi Arabia	10262
Suriname	62
United Arab Emirates	2293
Uruguay	248
Venezuela	2392
	<u>25933</u>

CASE 6Constrained Case: All claims scaled down equally.

<u>Brazil-Yugoslavia Precedent and Special Support (100% Standard)</u>	<u>Additional Shares</u>
Austria	489
Belgium	1650
Bolivia	63
Brazil	647
Canada	1058
Chile	326
Colombia	246
Costa Rica	125
Denmark	454
Dominican Republic	167
Ecuador	125
Egypt	130
El Salvador	128
Ethiopia	91
Finland	82
Greece	346
Guatemala	153
Honduras	103
Iran	2357
Iraq	176
Italy	1701
Korea, Republic of	543
Kuwait	314
Libyan	809
Mexico	742
Netherlands	2426
Nicaragua	103
Nigeria	668
Norway	395
Oman	237

(continued)

<u>Brazil-Yugoslavia Precedent and Special Support (100% Standard</u>	<u>Additional Shares</u>
Panama	93
Paraguay	72
Peru	246
Portugal	72
Saudi Arabia	4238
Spain	722
Suriname	26
Sweden	1283
Trinidad and Tobago	268
United Arab Emirates	947
Uruguay	103
Venezuela	988
Yugoslavia	<u>24</u>
	<u>25936</u>

CASE 7Constrained Case: All claims scaled down equally.

<u>Brazil-Yugoslavia Precedent and Special Support (80% Standard)</u>	<u>Additional Shares</u>
Austria	127
Belgium	893
Bolivia	131
Chile	673
Colombia	507
Costa Rica	258
Denmark	113
Dominican Republic	346
Ecuador	258
Egypt	269
El Salvador	265
Ethiopia	187
Greece	715
Guatemala	316
Honduras	213
Iran	2471
Iraq	364
Italy	256
Korea, Republic of	546
Libya	937
Mexico	1533
Netherlands	2071
Nicaragua	212
Nigeria	361
Norway	43

(continued)

Brazil-Yugoslavia Precedent
and Special Support (80% Standard) Additional Shares

Oman	343
Panama	192
Paraguay	149
Peru	507
Saudi Arabia	5575
Spain	44
Suriname	53
Sweden	1192
Trinidad and Tobago	274
United Arab Emirates	1287
Uruguay	212
Venezuela	<u>2041</u>
	<u>25934</u>

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	POSITION AFTER GCI			CASE 1			CASE 2			CASE 3			CASE 4			CASE 5			CASE 6			CASE 7		
	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL VOTES	POWER % OF TOTAL
DIRECTORS APPOINTED BY:																								
1. UNITED STATES	150495	150995	20.99	151726	152226	20.08	151726	152226	19.63	151726	152226	19.86	151726	152226	18.02	151726	152226	20.08	151726	152226	20.08	151726	152226	20.08
2. UNITED KINGDOM	50336	50836	7.07	50336	50836	6.70	50336	50836	6.56	50336	50836	6.63	50336	50836	6.02	50336	50836	6.71	50336	50836	6.71	50336	50836	6.71
3. GERMANY	34097	34597	4.81	34097	34597	4.56	34097	34597	4.46	34097	34597	4.51	34097	34597	4.09	34097	34597	4.56	34097	34597	4.56	34097	34597	4.56
4. FRANCE	34010	34510	4.80	34010	34510	4.55	34010	34510	4.45	34010	34510	4.50	34010	34510	4.08	34010	34510	4.55	34010	34510	4.55	34010	34510	4.55
5. JAPAN	33956	34456	4.79	33956	34456	4.54	33956	34456	4.44	33956	34456	4.50	33956	34456	4.08	33956	34456	4.55	33956	34456	4.55	33956	34456	4.55
ELECTED DIRECTORS:																								
6. EL-NAGGAR (EGYPT)																								
BAHRAIN	316	816	.11	316	816	.11	316	816	.11	316	816	.11	316	816	.10	316	816	.11	316	816	.11	316	816	.11
EGYPT, ARAB REP. OF	3194	3694	.51	3606	4106	.54	3606	4106	.53	3606	4106	.54	3606	4106	.49	3509	4009	.53 *	3324	3824	.50 *	3463	3963	.52 *
IRAQ	1851	2351	.33	2409	2909	.38	2409	2909	.38	2409	2909	.38	2409	2909	.34	2278	2778	.37 *	2027	2527	.33 *	2215	2715	.36 *
JORDAN	451	951	.13	451	951	.13	451	951	.12	451	951	.12	451	951	.11	451	951	.13	451	951	.13	451	951	.13
KUWAIT	6201	6701	.93	6201	6701	.88	6201	6701	.86	6201	6701	1.02 *	8102	8602	1.02 *	6961	7461	.98 *	6515	7015	.93 *	6201	6701	.88
LEBANON	345	845	.12	345	845	.11	345	845	.11	345	845	.11	345	845	.10	345	845	.11	345	845	.11	345	845	.11
MALDIVES	12	512	.07	12	512	.07	12	512	.07	12	512	.07	12	512	.06	12	512	.07	12	512	.07	12	512	.07
PAKISTAN	4877	5377	.75	4877	5377	.71	4877	5377	.69	4877	5377	.70	4877	5377	.64	4877	5377	.71	4877	5377	.71	4877	5377	.71
QATAR	699	1199	.17	699	1199	.16	699	1199	.15	699	1199	.16	699	1199	.14	699	1199	.16	699	1199	.16	699	1199	.16
SAUDI ARABIA	10962	11462	1.59	19538	20038	2.64 *	20019	20519	2.65 *	24705	25205	3.29 *	27462	27962	3.31 *	21224	21724	2.87 *	15200	15700	2.07 *	16537	17037	2.25 *
SYRIAN ARAB REPUBLIC	983	1483	.21	983	1483	.20	983	1483	.19	983	1483	.19	983	1483	.18	983	1483	.20	983	1483	.20	983	1483	.20
UNITED ARAB EMIRATES	2135	2635	.37	4114	4614	.61 *	4215	4715	.61 *	5202	5702	.74 *	5782	6282	.74 *	4428	4928	.65 *	3082	3582	.47 *	3422	3922	.52 *
YEMEN ARAB REPUBLIC	205	705	.10	205	705	.09	205	705	.09	205	705	.09	205	705	.08	205	705	.09	205	705	.09	205	705	.09
SUB-TOTAL	32231	38731	5.38	43756	50256	6.63	44338	50838	6.56	51099	57599	7.51	55249	61749	7.31	46288	52788	6.96	38036	44536	5.88	39726	46226	6.10
7. DRAKE (CANADA)																								
BAHAMAS	523	1023	.14	523	1023	.13	523	1023	.13	523	1023	.13	523	1023	.12	523	1023	.13	523	1023	.13	523	1023	.13
BARBADOS	269	769	.11	269	769	.10	269	769	.10	269	769	.10	269	769	.09	269	769	.10	269	769	.10	269	769	.10
CANADA	21532	22032	3.06	21532	22032	2.91	21532	22032	2.84	21532	22032	2.87	28023	28523	3.38 *	21532	22032	2.91	22590	23090	3.05 *	21532	22032	2.91
DOMINICA	31	531	.07	31	531	.07	31	531	.07	31	531	.07	31	531	.06	31	531	.07	31	531	.07	31	531	.07
GRENADE	46	546	.08	46	546	.07	46	546	.07	46	546	.07	46	546	.06	46	546	.07	46	546	.07	46	546	.07
GUYANA	397	897	.12	397	897	.12	397	897	.12	397	897	.12	397	897	.11	397	897	.12	397	897	.12	397	897	.12
IRELAND	2451	2951	.41	2451	2951	.39	2451	2951	.38	2451	2951	.38	2451	2951	.37 *	2451	2951	.39	2451	2951	.39	2451	2951	.39
JAMAICA	1154	1654	.23	1154	1654	.22	1154	1654	.21	1154	1654	.22	1154	1654	.20	1154	1654	.22	1154	1654	.22	1154	1654	.22
ST. LUCIA	56	556	.08	56	556	.07	56	556	.07	56	556	.07	56	556	.07	56	556	.07	56	556	.07	56	556	.07
SUB-TOTAL	26459	30959	4.30	26459	30959	4.08	26459	30959	3.99	26459	30959	4.04	33112	37612	4.45	26459	30959	4.08	27517	32017	4.22	26459	30959	4.08
8. RAY (INDIA)																								
BANGLADESH	2405	2905	.40	2405	2905	.38	2405	2905	.37	2405	2905	.38	2405	2905	.34	2405	2905	.38	2405	2905	.38	2405	2905	.38
INDIA	22383	22883	3.18	22383	22883	3.02	22383	22883	2.95	22383	22883	2.99	22383	22883	2.71	22383	22883	3.02	22383	22883	3.02	22383	22883	3.02
SRI LANKA	1860	2360	.33	1860	2360	.31	1860	2360	.30	1860	2360	.31	1860	2360	.28	1860	2360	.31	1860	2360	.31	1860	2360	.31
SUB-TOTAL	26648	28148	3.91	26648	28148	3.71	26648	28148	3.63	26648	28148	3.67	26648	28148	3.33	26648	28148	3.71	26648	28148	3.71	26648	28148	3.71
9. LOOIJEN (NETHERLANDS)																								
CYPRUS	538	1038	.14	538	1038	.14	538	1038	.13	538	1038	.14	538	1038	.12	538	1038	.14	538	1038	.14	538	1038	.14
ISRAEL	3239	3739	.52	3239	3739	.49	3239	3739	.48	3239	3739	.49	3239	3739	.44	3239	3739	.49	3239	3739	.49	3239	3739	.49
NETHERLANDS	14867	15367	2.14	14867	15367	2.03	18513	19013	2.45 *	14867	15367	2.00	25397	25897	3.06 *	14867	15367	2.03	17293	17793	2.35 *	16938	17438	2.30 *
ROMANIA	3874	4374	.61	3874	4374	.58	3874	4374	.56	3874	4374	.57	3874	4374	.52	3874	4374	.58	3874	4374	.58	3874	4374	.58
YUGOSLAVIA	4381	4881	.68	4381	4881	.64	4381	4881	.63	4381	4881	.64	4381	4881	.65 *	4381	4881	.64	4405	4905	.65 *	4381	4881	.64
SUB-TOTAL	26899	29399	4.09	26899	29399	3.88	30545	33045	4.26	26899	29399	3.84	38065	40565	4.80	26899	29399	3.88	29349	31849	4.20	28970	31470	4.15
10. DE GROOTE (BELGIUM)																								
AUSTRIA	5219	5719	.80	5219	5719	.75	5555	6055	.78 *	5219	5719	.75	7621	8121	.96 *	5219	5719	.75	5708	6208	.82 *	5346	5846	.77 *
BELGIUM	14071	14571	2.03	14071	14571	1.92	15842	16342	2.11 *	14071	14571	1.90	21733	22233	2.63 *	14071	14571	1.92	15721	16221	2.14 *	14964	15464	2.04 *
LUXEMBOURG	575	1075	.15	575	1075	.14	575	1075	.14	575	1075	.14	575	1075	.13	575	1075	.14	575	1075	.14	575	1075	.14
TURKEY	3158	3658	.51	3158	3658	.48	3158	3658	.47	3158	3658	.48	3158	3658	.43	3158	3658	.48	3158	3658	.48	3158	3658	.48
SUB-TOTAL	23023	25023	3.48	23023	25023	3.30	25130	27130	3.50	23023	25023	3.26	33087	35087	4.15	23023	25023	3.30	25162	27162	3.58	24043	26043	3.44
11. WANG (CHINA)																								
CHINA	12000	12250	1.70	23232	23732	3.13	23232</																	

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	POSITION AFTER GCI			CASE 1			CASE 2			CASE 3			CASE 4			CASE 5			CASE 6			CASE 7		
	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL	ORDI- NARY SHARES	VOTING POWER TOTAL VOTES	% OF TOTAL
12. LUNDSTROM (SWEDEN)																								
DENMARK	4886	5386	.75	4886	5386	.71	5191	5691	.73 *	4886	5386	.70	7122	7622	.90 *	4886	5386	.71	5340	5840	.77 *	4999	5499	.73 *
FINLAND	4143	4643	.65	4143	4643	.61	4143	4643	.60	4143	4643	.61	4958	5458	.65 *	4143	4643	.61	4225	4725	.62 *	4143	4643	.61
ICELAND	430	930	.13	430	930	.12	430	930	.12	430	930	.12	430	930	.11	430	930	.12	430	930	.12	430	930	.12
NORWAY	4666	5166	.72	4666	5166	.68	4856	5356	.69 *	4666	5166	.67	6661	7161	.85 *	4666	5166	.68	5061	5561	.73 *	4709	5209	.69 *
SWEDEN	7117	7617	1.06	7117	7617	1.00	9178	9678	1.25 *	7117	7617	.99	12591	13091	1.55 *	7117	7617	1.00	8400	8900	1.17 *	8309	8809	1.16 *
SUB-TOTAL	21242	23742	3.30	21242	23742	3.13	23798	26298	3.39	21242	23742	3.10	31762	34262	4.05	21242	23742	3.13	23456	25956	3.42	22590	25090	3.31
13. RAGAZZI (ITALY)																								
GREECE	1830	2330	.32	2926	3426	.45	2926	3426	.44	2926	3426	.45	3292	3792	.45 *	2668	3168	.42 *	2176	2676	.35 *	2545	3045	.40 *
ITALY	19592	20092	2.79	19592	20092	2.65	20505	21005	2.71 *	19592	20092	2.62	28130	28630	3.39 *	19592	20092	2.65	21293	21793	2.88 *	19848	20348	2.68 *
PORTUGAL	2563	3063	.43	2563	3063	.40	2563	3063	.39	2563	3063	.40	3143	3643	.43 *	2563	3063	.40	2635	3135	.41 *	2563	3063	.40
SUB-TOTAL	23985	25485	3.54	25081	26581	3.51	25994	27494	3.55	25081	26581	3.47	34565	36065	4.27	24823	26323	3.47	26104	27604	3.64	24956	26456	3.49
14. ZAIN (MALAYSIA)																								
BURMA	1144	1644	.23	1144	1644	.22	1144	1644	.21	1144	1644	.21	1144	1644	.19	1144	1644	.22	1144	1644	.22	1144	1644	.22
FIJI	285	785	.11	285	785	.10	285	785	.10	285	785	.10	285	785	.09	285	785	.10	285	785	.10	285	785	.10
INDONESIA	7527	8027	1.12	7527	8027	1.06	7527	8027	1.04	7527	8027	1.05	7527	8027	.95	7527	8027	1.06	7527	8027	1.06	7527	8027	1.06
LAO PEOPLE'S DEM. REP	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
MALAYSIA	4000	4500	.63	4000	4500	.59	4000	4500	.58	4000	4500	.59	4000	4500	.53	4000	4500	.59	4000	4500	.59	4000	4500	.59
NEPAL	283	783	.11	283	783	.10	283	783	.10	283	783	.10	283	783	.09	283	783	.10	283	783	.10	283	783	.10
SINGAPORE	778	1278	.18	778	1278	.17	778	1278	.16	778	1278	.17	778	1278	.15	778	1278	.17	778	1278	.17	778	1278	.17
THAILAND	2861	3361	.47	2861	3361	.44	2861	3361	.43	2861	3361	.44	2861	3361	.40	2861	3361	.44	2861	3361	.44	2861	3361	.44
VIET NAM	1462	1962	.27	1462	1962	.26	1462	1962	.25	1462	1962	.26	1462	1962	.23	1462	1962	.26	1462	1962	.26	1462	1962	.26
SUB-TOTAL	18568	23068	3.21	18568	23068	3.04	18568	23068	2.97	18568	23068	3.01	18568	23068	2.73	18568	23068	3.04	18568	23068	3.04	18568	23068	3.04
15. MCLEOD (NEW ZEALAND)																								
AUSTRALIA	12487	12987	1.81	12487	12987	1.71	12487	12987	1.67	12487	12987	1.69	12487	12987	1.54	12487	12987	1.71	12487	12987	1.71	12487	12987	1.71
KOREA, REPUBLIC OF	2697	3197	.44	3539	4039	.53 *	3626	4126	.53 *	4475	4975	.65 *	4974	5474	.65 *	4012	4512	.60 *	3240	3740	.49 *	3243	3743	.49 *
NEW ZEALAND	3653	4153	.58	3653	4153	.55	3653	4153	.54	3653	4153	.54	3653	4153	.49	3653	4153	.55	3653	4153	.55	3653	4153	.55
PAPUA NEW GUINEA	476	976	.14	476	976	.13	476	976	.13	476	976	.13	476	976	.12	476	976	.13	476	976	.13	476	976	.13
SOLOMON ISLANDS	33	533	.07	33	533	.07	33	533	.07	33	533	.07	33	533	.06	33	533	.07	33	533	.07	33	533	.07
WESTERN SAMOA	46	546	.08	46	546	.07	46	546	.07	46	546	.07	46	546	.06	46	546	.07	46	546	.07	46	546	.07
SUB-TOTAL	19392	22392	3.11	20234	23234	3.06	20321	23321	3.01	21170	24170	3.15	21669	24669	2.92	20707	23707	3.13	19935	22935	3.03	19938	22938	3.03
16. ABDULAI (NIGERIA)																								
BOTSWANA	143	643	.09	143	643	.08	143	643	.08	143	643	.08	143	643	.08	143	643	.08	143	643	.08	143	643	.08
BURUNDI	337	837	.12	337	837	.11	337	837	.11	337	837	.11	337	837	.10	337	837	.11	337	837	.11	337	837	.11
EQUATORIAL GUINEA	149	649	.09	149	649	.09	149	649	.08	149	649	.08	149	649	.08	149	649	.09	149	649	.09	149	649	.09
ETHIOPIA	283	783	.11	570	1070	.14	570	1070	.14	570	1070	.14	570	1070	.13	502	1002	.13 *	374	874	.12 *	470	970	.13 *
GAMBIA, THE	126	626	.09	126	626	.08	126	626	.08	126	626	.08	126	626	.07	126	626	.08	126	626	.08	126	626	.08
GUINEA	463	963	.13	463	963	.13	463	963	.12	463	963	.13	463	963	.11	463	963	.13	463	963	.13	463	963	.13
KENYA	1065	1565	.22	1065	1565	.21	1065	1565	.20	1065	1565	.20	1065	1565	.19	1065	1565	.21	1065	1565	.21	1065	1565	.21
LESOTHO	112	612	.09	112	612	.08	112	612	.08	112	612	.08	112	612	.07	112	612	.08	112	612	.08	112	612	.08
LIBERIA	503	1003	.14	503	1003	.13	503	1003	.13	503	1003	.13	503	1003	.12	503	1003	.13	503	1003	.13	503	1003	.13
MALAWI	352	852	.12	352	852	.11	352	852	.11	352	852	.11	352	852	.10	352	852	.11	352	852	.11	352	852	.11
NIGERIA	5694	6194	.86	5694	6194	.82	6411	6911	.89 *	5694	6194	.81	8795	9295	1.10 *	5694	6194	.82	6362	6862	.91 *	6055	6555	.86 *
SEYCHELLES	21	521	.07	21	521	.07	21	521	.07	21	521	.07	21	521	.06	21	521	.07	21	521	.07	21	521	.07
SIERRA LEONE	345	845	.12	345	845	.11	345	845	.11	345	845	.11	345	845	.10	345	845	.11	345	845	.11	345	845	.11
SUDAN	1359	1859	.26	1359	1859	.25	1359	1859	.24	1359	1859	.24	1359	1859	.22	1359	1859	.25	1359	1859	.25	1359	1859	.25
SWAZILAND	190	690	.10	190	690	.09	190	690	.09	190	690	.09	190	690	.08	190	690	.09	190	690	.09	190	690	.09
TANZANIA	850	1350	.19	850	1350	.18	850	1350	.17	850	1350	.18	850	1350	.16	850	1350	.18	850	1350	.18	850	1350	.18
TRINIDAD AND TOBAGO	1291	1791	.25	1291	1791	.24	1291	1791	.23	1291	1791	.23	2409	2909	.34 *	1291	1791	.24	1559	2059	.27 *	1565	2065	.27 *
UGANDA	771	1271	.18	771	1271	.17	771	1271	.16	771	1271	.17	771	1271	.15	771	1271	.17	771	1271	.17	771	1271	.17
ZAMBIA	2228	2728	.38	2228	2728	.36	2228	2728	.35	2228	2728	.36	2228	2728	.32	2228	2728	.36	2228	2728	.36	2228	2728	.36
ZIMBABWE	1582	2082	.29	1582	2082	.27	1582	2082	.27	1582	2082	.27	1582	2082	.25	1582	2082	.27	1582	2082	.27	1582	2082	.27
SUB-TOTAL	17864	27864	3.87	18151	28151	3.71	19333	29333	3.78	18151	28151	3.67	22370	32370	3.83	18083	28083	3.70	18891	28891	3.81	18686	28686	3.78
17. MUNS (SPAIN)																								
COSTA RICA	254	754	.10	649	1149	.15	649	1149	.15	649	1149	.												

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	POSITION AFTER GCI			CASE 1			CASE 2			CASE 3			CASE 4			CASE 5			CASE 6			CASE 7		
	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL	ORDI-NARY SHARES	VOTING TOTAL	POWER % OF TOTAL
18. RAZAFINDRABE (MADAGASCAR)																								
BENIN	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
CAMEROON	476	976	.14	476	976	.13	476	976	.13	476	976	.13	476	976	.12	476	976	.13	476	976	.13	476	976	.13
CAPE VERDE	31	531	.07	31	531	.07	31	531	.07	31	531	.07	31	531	.06	31	531	.07	31	531	.07	31	531	.07
CENTRAL AFRICAN REP.	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
CHAD	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
COMOROS	31	531	.07	31	531	.07	31	531	.07	31	531	.07	31	531	.06	31	531	.07	31	531	.07	31	531	.07
CONGO, PEOPLE'S REP. OF	242	742	.10	242	742	.10	242	742	.10	242	742	.10	242	742	.09	242	742	.10	242	742	.10	242	742	.10
DJIBOUTI	60	560	.08	60	560	.07	60	560	.07	60	560	.07	60	560	.07	60	560	.07	60	560	.07	60	560	.07
GABON	445	945	.13	445	945	.12	445	945	.12	445	945	.12	445	945	.11	445	945	.12	445	945	.12	445	945	.12
GUINEA-BISSAU	52	552	.08	52	552	.07	52	552	.07	52	552	.07	52	552	.07	52	552	.07	52	552	.07	52	552	.07
IVORY COAST	989	1489	.21	989	1489	.20	989	1489	.19	989	1489	.19	989	1489	.18	989	1489	.20	989	1489	.20	989	1489	.20
MADAGASCAR	530	1030	.14	530	1030	.14	530	1030	.13	530	1030	.13	530	1030	.12	530	1030	.14	530	1030	.14	530	1030	.14
MALI	393	893	.12	393	893	.12	393	893	.12	393	893	.12	393	893	.11	393	893	.12	393	893	.12	393	893	.12
MAURITANIA	244	744	.10	244	744	.10	244	744	.10	244	744	.10	244	744	.09	244	744	.10	244	744	.10	244	744	.10
MAURITIUS	428	928	.13	428	928	.12	428	928	.12	428	928	.12	428	928	.11	428	928	.12	428	928	.12	428	928	.12
NIGER	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
RWANDA	337	837	.12	337	837	.11	337	837	.11	337	837	.11	337	837	.10	337	837	.11	337	837	.11	337	837	.11
SAO TOME AND PRINCIPE	27	527	.07	27	527	.07	27	527	.07	27	527	.07	27	527	.06	27	527	.07	27	527	.07	27	527	.07
SENEGAL	867	1367	.19	867	1367	.18	867	1367	.18	867	1367	.18	867	1367	.16	867	1367	.18	867	1367	.18	867	1367	.18
SOMALIA	366	866	.12	366	866	.11	366	866	.11	366	866	.11	366	866	.10	366	866	.11	366	866	.11	366	866	.11
TOGO	352	852	.12	352	852	.11	352	852	.11	352	852	.11	352	852	.10	352	852	.11	352	852	.11	352	852	.11
UPPER VOLTA	228	728	.10	228	728	.10	228	728	.09	228	728	.09	228	728	.09	228	728	.10	228	728	.10	228	728	.10
ZAIRE	2393	2893	.40	2393	2893	.38	2393	2893	.37	2393	2893	.38	2393	2893	.34	2393	2893	.38	2393	2893	.38	2393	2893	.38
SUB-TOTAL	9403	20903	2.91	9403	20903	2.76	9403	20903	2.70	9403	20903	2.73	9403	20903	2.47	9403	20903	2.76	9403	20903	2.76	9403	20903	2.76
19. BLANCO (BOLIVIA)																								
ARGENTINA	9101	9601	1.33	9101	9601	1.27	9101	9601	1.24	9101	9601	1.25	9101	9601	1.14	9101	9601	1.27	9101	9601	1.27	9101	9601	1.27
BOLIVIA	511	1011	.14	712	1212	.16	712	1212	.16	712	1212	.16	712	1212	.14	665	1165	.15 *	574	1074	.14 *	642	1142	.15 *
CHILE	2401	2901	.40	3433	3933	.52	3433	3933	.51	3433	3933	.51	3433	3933	.47	3190	3690	.49 *	2727	3227	.43 *	3074	3574	.47 *
PARAGUAY	136	636	.09	364	864	.11	364	864	.11	364	864	.11	364	864	.10	310	810	.11 *	208	708	.09 *	285	785	.10 *
PERU	1816	2316	.32	2594	3094	.41	2594	3094	.40	2594	3094	.40	2594	3094	.37	2411	2911	.38 *	2062	2562	.34 *	2323	2823	.37 *
URUGUAY	1003	1503	.21	1328	1828	.24	1328	1828	.24	1328	1828	.24	1328	1828	.22	1251	1751	.23 *	1106	1606	.21 *	1215	1715	.23 *
SUB-TOTAL	14968	17968	2.50	17532	20532	2.71	17532	20532	2.65	17532	20532	2.68	17532	20532	2.43	16928	19928	2.63	15778	18778	2.48	16640	19640	2.59
20. CONSTAIN (COLUMBIA)																								
BRAZIL	10456	10956	1.52	10456	10956	1.44	10456	10956	1.41	10456	10956	1.43	14082	14582	1.73 *	10456	10956	1.45	11103	11603	1.53 *	10456	10956	1.45
COLOMBIA	2275	2775	.39	3053	3553	.47	3053	3553	.46	3053	3553	.46	3053	3553	.42	2870	3370	.44 *	2521	3021	.40 *	2782	3282	.43 *
DOMINICAN REPUBLIC	339	839	.12	869	1369	.18	869	1369	.18	869	1369	.18	869	1369	.16	744	1244	.16 *	506	1006	.13 *	685	1185	.16 *
ECUADOR	712	1212	.17	1107	1607	.21	1107	1607	.21	1107	1607	.21	1107	1607	.19	1014	1514	.20 *	837	1337	.18 *	970	1470	.19 *
HAITI	337	837	.12	337	837	.11	337	837	.11	337	837	.11	337	837	.10	337	837	.11	337	837	.11	337	837	.11
PHILIPPINES	3320	3820	.53	3320	3820	.50	3320	3820	.49	3320	3820	.50	3320	3820	.45	3320	3820	.50	3320	3820	.50	3320	3820	.50
SUB-TOTAL	17439	20439	2.84	19142	22142	2.92	19142	22142	2.86	19142	22142	2.89	22768	25768	3.05	18741	21741	2.87	18624	21624	2.85	18550	21550	2.84
21. KHELIL (TUNISIA)																								
AFGHANISTAN	676	1176	.16	676	1176	.16	676	1176	.15	676	1176	.15	676	1176	.14	676	1176	.16	676	1176	.16	676	1176	.16
ALGERIA	4505	5005	.70	4505	5005	.66	4505	5005	.65	4505	5005	.65	4505	5005	.59	4505	5005	.66	4505	5005	.66	4505	5005	.66
GHANA	1657	2157	.30	1657	2157	.28	1657	2157	.28	1657	2157	.28	1657	2157	.26	1657	2157	.28	1657	2157	.28	1657	2157	.28
IRAN	10929	11429	1.59	11303	11803	1.56	15101	15601	2.01 *	11303	11803	1.54	20716	21216	2.51 *	11215	11715	1.55 *	13286	13786	1.82 *	17400	17900	1.83 *
LIBYA	3072	3572	.50	3072	3572	.47	4626	5126	.66 *	3072	3572	.47	6346	6846	.81 *	3072	3572	.47	3881	4381	.58 *	4009	4509	.59 *
MOROCCO	2362	2862	.38	2362	2862	.37	2362	2862	.37	2362	2862	.37	2362	2862	.34	2362	2862	.38	2362	2862	.38	2362	2862	.38
OMAN	372	872	.12	372	872	.12	921	1421	.18 *	372	872	.11	1264	1764	.21 *	372	872	.12	609	1109	.15 *	715	1215	.16 *
TUNISIA	908	1408	.20	908	1408	.19	908	1408	.18	908	1408	.18	908	1408	.17	908	1408	.19	908	1408	.19	908	1408	.19
YEMEN, PDR	650	1150	.16	650	1150	.15	650	1150	.15	650	1150	.15	650	1150	.14	650	1150	.15	650	1150	.15	650	1150	.15
SUB-TOTAL	25131	29631	4.12	25505	30005	3.96	31406	35906	4.63	25505	30005	3.91	39084	43584	5.16	25417	29917	3.95	28534	33034	4.36	28882	33382	4.40
REPRESENTATION UNDETERMINED																								
KAMPUCHEA, DEMOCRATIC	492	992	.14	492	992	.13	492	992	.13	492	992	.13	492	992	.12	492	992	.13	492	992	.13	492	992	.13
SOUTH AFRICA	6704	7204	1.00	6704	7204	.95	6704	7204	.93	6704	7204	.94	7473	7973	.94 *	6704	7204	.95						

7/17/14

A.2.02

Internal memorandum summarizing available options on valuation of IBRD capital.

(TO BE SUPPLIED ON COMPLETION)

717/4/15

A.2.01

Discussion Note for the Board analyzing four possible approaches to the question of valuation of Bank capital.

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

For consideration on
April 23, 1981
(and see Para.2 below)

R81-57

FROM: Vice President and Secretary

March 20, 1981

VALUATION OF IBRD CAPITAL SUBSCRIPTIONS: POSSIBLE COURSES OF ACTION

1. Attached is a discussion draft memorandum from the President entitled "Valuation of IBRD Capital Subscriptions: Possible Courses of Action" dated March 20, 1981.
2. At the request of several Executive Directors, this paper will be discussed in a Board seminar to be held on April 13, 1981.
3. Questions on this document may be addressed to Mr. Wood (Extension 75837).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
President's Council

Office of the President

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

DISCUSSION DRAFT
=====

March 20, 1981

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Valuation of IBRD Capital Subscriptions:
Possible Courses of Action

Section 1: Introduction

1. The purpose of this memorandum is to provide a basis for Executive Directors' discussion of the issues relating to the valuation of IBRD capital subscriptions. The main problem to be resolved is what the Bank should use as the successor to the 1944 gold dollar, the unit in which IBRD capital stock is expressed in the Articles of Agreement. Four possible approaches, each of which involves a different successor unit, are described in the memorandum:

- (1) Use of the SDR as a common standard of value for all members' subscriptions.
- (2) Use of the current United States dollar as a common standard for all members' subscriptions.
- (3) Granting member countries a choice of either the SDR or any one of the constituent currencies in the SDR.
- (4) Permitting all member countries to subscribe in their own national currency (i.e., abolishing a common standard of value).

Each of these options is discussed in detail below.

2. The General Counsel has given an opinion that either of the first two options could be implemented using the Directors' powers to interpret the Articles of Agreement, i.e., without an amendment being required. It is also clear that the third and fourth options raise more far-reaching legal questions under the Articles.

3. The remainder of this introduction gives a background to the capital valuation problem and outlines the subsequent discussion in the memorandum.

Background to the Problem

4. The problem of IBRD Capital valuation has two main aspects: the first concerns the standard of value in which members' subscriptions to the Bank should be denominated; the second relates to the maintenance of value (MOV) provisions in the Bank's Articles. Until 1978, the Bank had an unequivocal common standard of value for all shares regardless of the subscribing member or the date on which the shares were subscribed. This common standard was the par value per share established in the Bank's Articles, namely, 100,000 United States dollars "of the weight and fineness in effect on July 1, 1944" (the so-called 1944 gold dollar). 1/ And, while the Articles permit the Bank to issue shares at a subscription price other than par, 2/ the Bank has consistently followed the practice of issuing all shares at par, thereby establishing an identical obligation of \$100,000 (in 1944 gold dollars) on every share. This obligation was unaffected by changes in the exchange rates of member countries' national currencies.

5. Standard of Value Problem. Resolving the standard of value issue is necessary for the Bank to be able to state with precision what members' obligations are on existing shares and to fix an unequivocal subscription price for new shares. It was no longer possible to apply literally the provisions of the Articles relating to the standard of value when the changes in the international monetary system resulted in the removal of gold as the basis for determining the par values of national currencies. It became necessary for the Bank to find a successor to the 1944 gold dollar, since the basis for translating these dollars into current United States dollars or into any other currency ceased to exist on April 1, 1978 when the Second Amendment of the IMF Articles took effect. In 1978 the Vice President and General Counsel gave an opinion that the SDR would be a logical successor to the 1944 gold dollar and that it could be substituted for purposes of the Bank's capital subscriptions without an amendment of the Articles. It was acknowledged that the Executive Directors might also decide that the current United States dollar could serve as a

1/ Article II, Section 2 (a).

2/ Article II, Section 4.

successor.^{1/}

6. Although the choice of a successor to the 1944 gold dollar had not been resolved, subscriptions continued to be received under the 1976 Selective Capital Increase and other capital increases. It was necessary, therefore, to adopt an interim arrangement whereby subscriptions are accepted at a price per share of \$120,635 (the current US dollar equivalent of the 1944 dollar at the last official par value of the dollar), subject to adjustment once the valuation issue is settled. For purposes of its financial statements, the Bank has expressed the value of its capital stock on the basis of the SDR.

7. The need to resolve the question of how to value the Bank's capital has become more urgent as the time for the start of subscriptions to the General Capital Increase (GCI) draws near. At the time the GCI was approved, it was expected that the Board of Executive Directors would be able to arrive at a definitive position on the valuation of capital and maintenance of value questions and a procedure for resolving these issues before subscriptions to the GCI began.^{2/} The GCI resolution contains provisions for adjusting the number of shares issued under the resolution, depending on how the valuation question is resolved. Several member governments have expressed strong reservations about subscribing to the GCI before a final decision is taken on these issues.

8. Maintenance of Value Problem. The maintenance of value (MOV) provisions in the Bank's Articles require members to maintain the value of that portion of their paid-in capital that is subscribed in their own currency in terms of the subscription price (i.e., 100,000 gold dollars).^{3/} These provisions require a member (or the Bank) to make payments of national currency whenever there is a change in the par value of the member's currency, or when in the Bank's opinion, there has been a depreciation in the foreign exchange value of the member's currency. In the early 1970s, when floating exchange rates became common, the Bank began to examine new approaches to the settlement of MOV obligations. Previously, the application of the MOV provisions had been relatively straightforward: generally, a member (or the Bank) made MOV payments only when an explicit decision

^{1/} "Valuation of the Bank's Capital" (SecM78-251, dated March 29, 1978).

^{2/} Report of the Executive Directors to the Board of Governors on the IBRD General Capital Increase, (R79-57/2, dated June 20, 1979), paragraph 7.

^{3/} Article II, Section 9.

was made to change the par value of the member's currency. 1/ Floating complicated MOV because exchange rates changed frequently and without any corresponding changes in official par values. Discussion of a new method for settling MOV obligations was never brought to a conclusion, because the amendment of the IMF Articles made the Bank's existing standard of value unusable, and without an agreed replacement the MOV provisions of the Articles could not be applied. If the question of the replacement of the 1944 gold dollar can be resolved--and this is clearly the more difficult issue--it should not be difficult to develop a satisfactory technique for settlement of MOV obligations. 2/

9. The Bank is thus faced with the task of determining, in the near future: (a) what the standard of value for capital subscriptions should be, i.e., what the successor to the 1944 gold dollar should be; and (b) whether and how the maintenance of value provisions in the Bank's Articles should be applied.

Outline of the Discussion

10. The memorandum begins with a discussion of the fourth option listed above, namely doing away with a standard of value altogether and letting each member subscribe to the Bank in terms of its own national currency. This approach is analyzed first (in Section 2) in order to make clear at the outset the purposes that a standard of value has served in the Bank in the past. The advantages and disadvantages to both the Bank and its members are described. A distinction is made between a strong standard of value, which brings important financial benefits to the Bank, and a common standard of

1/ The provision in the Articles of Agreement permitting the Bank to require an MOV payment if it finds that a de facto depreciation has taken place, has only been applied in special circumstances.

2/ In its published accounts, the Bank has been accruing "notional MOV" against the SDR since April 1, 1978. As of December 31, 1980, notional MOV payable to the Bank was \$468.1 million, and the Bank's own notional MOV obligation was \$130.8 million, leaving a net amount due to the Bank of \$337.3 million. The positions of individual members with respect to MOV obligations prior to April 1, 1978 vary widely. Some have settled on the basis of the last par values or central rates of their currencies; others have not settled MOV since the early 1970s.

value, which preserves the important principle that countries' rights in the Bank should correspond to the obligations they carry.

11. Section 3 describes how substitution of the SDR for the 1944 gold dollar would affect members' obligations to the Bank. While adoption of the SDR would ensure that the Bank continues to have a standard of value that is both relatively strong and common to all members, this approach would also mean that members' obligations could vary in terms of their own national currencies.

12. Section 4 discusses the option of substituting the current US dollar for the 1944 gold dollar (at an exchange rate of 1.20635). The operation of such a standard of value would be essentially the same as under the SDR. However, the United States would be able to subscribe in its own currency and thereby avoid certain legislative difficulties. It is not possible to predict with confidence whether the Bank would be better or worse off in the future with a US dollar standard rather than the SDR. Adopting a dollar standard rather than the SDR would have reduced the Bank's capital by about \$700 million (or 2%), using exchange rates of March 11, 1981. The effects of a dollar standard on the value of the Bank's capital would have been larger in the past, fluctuating from a small increase to a reduction of \$3.5 billion.

13. Section 5 describes the multiple currency option. Under this approach, members would be given a choice of the SDR or any of its constituent currencies as the standard of value for their capital subscriptions.

14. Section 6 discusses the options available to the Bank with respect to existing (as opposed to future) capital subscriptions. Section 7 provides a summary.

Section 2: Abolition of a Standard of Value

15. The initial standard of value (i.e., the 1944 gold dollar) has served two main purposes in the Bank: protection of the Bank's financial strength; and preservation of a correspondence between relative subscriptions and relative voting power. 1/

Effect on Bank Financial Strength

16. Historically, the standard of value has helped preserve the real value of IBRD capital by linking subscriptions to a unit (effectively gold) that was strong relative to the national currencies of members subscribing to the Bank and the currencies in which Bank operations were conducted. It is estimated that the Bank's subscribed capital would have been about \$8.4 billion (or 21%) lower at the end of FY80 if members' subscriptions had originally been denominated in their own currencies rather than in a common standard of value. 2/ Similarly, if exchange rate movements in the future continue as they have in recent years, 3/ abolition of a standard of value altogether could result in future reductions in subscribed capital of \$11 billion over the next 4-6 years, compared to what would be the case if the SDR were substituted for the 1944 dollar. Both the Bank's bondholders and its borrowing member countries benefit from the stronger capital base provided by a strong standard of value, but in somewhat different ways.

17. Bondholders: One of the main protections for holders of World Bank bonds is the callable capital guarantee provided by the shareholder governments. The value of the callable capital is expressed in terms of the unit in which the capital subscriptions are denominated (i.e., the subscription price per share). If this unit is

1/ Under the Bank's Articles, relative shareholdings also determine member's relative claims on the Bank's earnings and assets (in a liquidation).

2/ The calculations underlying this estimate use the 1944 gold dollar as the standard of value until April 1, 1978 and the SDR thereafter. All calculations use June 30, 1980 as their terminal date. Use of different terminal dates could have an impact on the results.

3/ Specifically, as they did between 1974 and 1979.

strong relative to the currencies in which IBRD borrowings are made, the risk to the IBRD and its bondholders of a depreciation in the value of the callable capital vis-a-vis outstanding borrowings will be minimized. If the subscription price is expressed in terms of a weak unit of value, then bondholders face the prospect of an erosion over time in the value of the callable capital guarantees.

18. Without a standard of value, the exposure of the bondholders to a depreciation in the callable capital can be determined by comparing two currency baskets: the basket in which borrowings have been made and a subscribed capital basket made up of the currencies of all members. The basket of borrowings has consistently appreciated vis-a-vis the subscribed capital basket because most borrowing has taken place in a few strong currencies, whereas the capital is made up of the subscriptions of a much wider number of currencies, many of which have depreciated substantially over time. If, on the other hand, a standard of value is retained, the relevant comparison is between the effects of exchange rate changes on the basket of borrowings and their effects on the standard of value. For example, if the standard were the US dollar the value of the callable capital would move against the Bank's debt in the same way that the dollar does, i.e., as though all subscriptions were made in dollars. If the SDR were the standard, the relevant comparison would be between the basket of borrowed currencies and the SDR basket.

19. The importance of a strong standard of value to bondholders is reduced to the extent that bondholders look for protection mainly to the callable capital of the more creditworthy countries, whose currencies tend to be somewhat stronger on average than the total subscribed capital basket. 1/

20. Lending Authority. The Bank also benefits from the effects of a strong standard of value on commitment authority. The Bank's Articles of Agreement put a statutory ceiling on outstanding loans equal to the total of subscribed capital and reserves. The absence of the 1944 dollar as a standard of value since the Bank's inception would have resulted in a ceiling about \$8.4 billion lower at the end

1/ Because of its effects on paid-in capital, a strong standard of value also produces a marginal strengthening of the Bank's net income and equity, which provides some additional benefit to bondholders. This effect is marginal, however, because the currency composition of paid-in capital that is released for use in the Bank's operations (which is all that affects the Bank's income) is considerably stronger than the basket of subscribed capital generally.

of FY80 than with a SDR standard of value.

21. In recent years, most of this hypothetical \$8 billion loss of commitment authority would have occurred because of depreciation of the subscriptions of countries which are currently borrowers from the Bank. While there has been some depreciation of the currencies of certain Part I countries, this has been offset by appreciation in the currencies of other Part I countries. A strong standard of value has not, however, imposed a major cost on the borrowing countries because (a) the major part of subscriptions to the Bank are in the form of a contingent liability that does not, and is never expected to, impose a real cost on member countries; and (b) many of the Part II countries have not released the national currency portion of their paid-in capital for use in the Bank's operations.

Subscriptions and Voting Power

22. The second purpose a standard of value achieves in the Bank is that, since it is common to all members, it ensures that there will be a correspondence between members' relative obligations (i.e., capital subscriptions) and their relative rights (i.e., voting power). The framers of the Bank's Articles saw this as an important principle and established the Bank as a share capital institution with each share having similar rights and obligations. Differences among countries in economic and financial strength have been taken into account in the number of shares allocated to members through periodic selective capital increases, and differences in voting power, have matched differences in share allocations. 1/

23. The existence of a single, common standard of value ensures that this parallel distribution of votes and obligations remains unchanged over time regardless of what happens to exchange rates. That is, the proportions of total subscribed capital obligations held by various members will remain as they were at the time shares were allocated, and they will continue to correspond to the proportions of shares and votes (subscription votes, that is) held by the same members. Without a common standard, exchange rate movements would cause the distribution of capital obligations to diverge both from what it was at the time shares were originally allocated and also from the distribution of shares and votes. This process, which is illustrated in the table below, would result in members having

1/ This contribution-weighted voting is tempered in the Bank by the membership votes (or "membership shares" in the case of GCI).

different obligations per share and thus in a mismatch between relative obligations and relative rights.

Hypothetical Impact of Exchange Rate Movements on Relative Subscriptions and Voting Power with and without a Common Standard of Value

With Common Standard of Value

	Ex-change Rates ^{a/}	Initial Position				Position after Exchange Rate Changes				
		Subscriptions			Voting Power ^{c/} (%)	Ex-change Rates ^{a/}	Subscriptions			Voting Power ^{c/} (%)
		SDR	National Currency	% ^{b/}			SDR	National Currency	% ^{b/}	
Country A	2.00	1,000	2,000	41.7	41.7	1.80	1,000	1,800	41.7	41.7
Country B	1.00	600	600	25.0	25.0	1.25	600	750	25.0	25.0
Country C	.75	300	225	12.5	12.5	.70	300	210	12.5	12.5
Country D	5.00	300	1,500	12.5	12.5	4.00	300	1,200	12.5	12.5
Country E	10.00	200	2,000	8.3	8.3	25.00	200	5,000	8.3	8.3
		<u>2,400</u>		<u>100.0</u>	<u>100.0</u>		<u>2,400</u>		<u>100.0</u>	<u>100.0</u>

Without Common Standard of Value

	Ex-change Rates ^{a/}	Initial Position				Position after Exchange Rate Changes				
		Subscriptions			Voting Power (%)	Ex-change Rates ^{a/}	Subscriptions			Voting Power (%)
		National Currency	SDR ^{d/}	% ^{b/}			National Currency	SDR ^{d/}	% ^{b/}	
Country A	2.00	2,000	1,000	41.7	41.7	1.80	2,000	1,000	46.9	41.7
Country B	1.00	600	600	25.0	25.0	1.25	600	480	20.3	25.0
Country C	.75	225	300	12.5	12.5	.70	225	321	13.6	12.5
Country D	5.00	1,500	300	12.5	12.5	4.00	1,500	375	15.8	12.5
Country E	10.00	2,000	200	8.3	8.3	25.00	2,000	80	3.4	8.3
			<u>2,400</u>	<u>100.0</u>	<u>100.0</u>			<u>2,367</u>	<u>100.0</u>	<u>100.0</u>

^{a/} National currency units per SDR.
^{b/} Percent of total in SDR.
^{c/} Excluding effect of membership votes.
^{d/} Used as a numeraire only.

24. Disparities between votes and obligations could become large over time in the case of the Bank. This could happen because the main portion of IBRD capital obligations remains outstanding (i.e., uncalled) indefinitely, rather than being paid-in within a relatively short period of time after agreement is reached on relative burdens and relative voting power, as is the case in institutions like UNDP or IDA.

25. These considerations suggest that a common standard of value offers advantages to the Bank's shareholders. If such a standard is also a strong currency unit, it will protect the Bank's commitment authority and other aspects of its financial strength. It is these considerations which constitute the case for continuing with a standard of value system; that is, adopting a single, strong successor to the 1944 gold dollar.

26. The case against adopting a common standard of value is partly based upon the legislative and administrative inconvenience that is imposed on members by acceptance of an obligation denominated in something other than their national currency. While they acknowledge that, absent a common standard of value, exchange rate changes will alter relative obligations, those opposing a common standard of value also believe that this change is similar to other changes in relative burden-sharing ability and should not by itself force a realignment of voting power--at least not automatically. They believe that share allocations take account of many factors, and feel that these allocations, and the relative voting power associated with the allocations, should not be changed except after careful review and renegotiation based upon the same broad range of factors. They would, in other words, tolerate discrepancies between relative subscriptions and relative voting power that arise because of exchange rate changes. These discrepancies could be taken into account--as one factor, but not the only one--in determining the allocation of new shares. They would not, however, tamper with the allocation of existing shares solely because exchange rate changes had altered relative obligations. This point, however, can be used either to argue in favor of a common standard of value or to argue against it. As noted above, the Bank has in the past operated on the principle that because relative voting power should not be changed except by negotiation, relative obligations should also not change except by negotiation. Adherence to a common standard of value has prevented exchange rate changes from altering relative obligations and hence creating a situation where relative voting power would need to change.

27. There can be differences of view about the importance of keeping relative votes in line with relative obligations. Those who attach major importance to maintaining a fixed relationship between obligations and voting power over time may prefer the substitution of

the SDR or the current US dollar for the 1944 gold dollar, options that are described in the next two sections. The multiple currency option, which might be viewed as a compromise between a common standard of value and no standard at all, is discussed in Section 5.

Section 3: Substitution of the SDR

28. Substitution of the SDR for the 1944 gold dollar as the Bank's common standard of value, would leave the provisions of the Articles relating to the par value of the capital stock and MOV on paid-in capital unchanged. If the SDR were substituted for the 1944 gold dollar, the par value of a share of IBRD capital stock would become SDR100,000, and members' obligations with respect to both paid-in capital and callable capital would be defined in terms of SDR. In the General Capital Increase, for example, member countries would be required to pay in 3/4% of the subscription price per share of SDR100,000 (i.e., SDR750) in gold or dollars and 6-3/4% in their own national currency, i.e., the national currency equivalent of SDR6,750 at the exchange rate prevailing on the date payment is received. In addition, members would be expected to recognize a contingent liability of SDR92,500 per share. If a call was ever made on the GCI shares, each member would be expected to pay up to the equivalent of SDR92,500 per share, depending on the amount of the call. From time to time, the member (or the Bank) would also be required to make payments of national currency in order to maintain the value of the 6-3/4% portion of paid-in capital at its SDR value of SDR6,750 per share.

29. The preceding section discussed the benefits to the Bank's bondholders, borrowers and the shareholders themselves that would arise from use of a strong and common standard of value for capital subscriptions. These benefits would, however, involve what may be perceived as a cost to the shareholders, namely, acceptance of an obligation expressed in something other than their own national currency. This cost has two components: (a) the administrative and legislative problems created by MOV on paid-in capital; and (b) the policy and other problems associated with a contingent liability whose value in the member's own currency changes with day-to-day movements in exchange rates.

30. Paid-in Capital. Several different problems are potentially created for members by the maintenance of value obligation. The first concerns the number and size of MOV transactions that could result under a system of floating exchange rates. Technically speaking, MOV obligations could arise on a daily basis for many members, stemming from daily movements of exchange rates. These obligations could also fluctuate in value, sometimes flowing from the member to the Bank (when the member's currency depreciates against the SDR) and sometimes from the Bank to the member (when the member's currency appreciates against the SDR). Fortunately, the Bank has very wide latitude in arrangements for settlement (i.e., payment) of MOV obligations, subject only to considerations of equity among members and prudence in

financial policy. MOV obligations might be accrued for 12 months at a time, for example, and then settled anytime within the subsequent five years.

31. A potentially more serious problem with respect to paid-in capital obligations expressed in terms of the SDR is that members would not know at the time a capital increase was agreed how much national currency would be required to purchase a share of IBRD capital stock. The amount required would depend on what happened to the member's exchange rate vis-a-vis the SDR between the time the increase was agreed and the time the shares were actually subscribed. The legislative process of appropriating amounts for IBRD capital subscriptions would thus be more complicated than if the subscription were expressed in national currency. Moreover, even after subscription was made, some members might need to take legislative action from time to time in order to maintain the funds paid-in in national currency at their initial value. 1/

32. While flexibility in the timing of settlement of MOV could reduce these administrative and legislative problems, a more complete solution may lie in the use of a provision of the Articles that permits the member country to be relieved entirely of the need to make MOV payments. This approach, which has become known as the "Philippines Formula" after the country to which it was first applied, is made possible by the fact that MOV applies only to the national currency portion of the subscription that is actually held by the Bank. If a member exchanges this national currency with a currency acceptable to the Bank, then there is by definition no further MOV requirement (unless, of course, the transaction is reversed). In earlier years, the Bank permitted the Philippines and several other countries to exchange their national currencies for US dollars as a means of obtaining the release, for lending purposes, of otherwise unusable subscriptions.

33. This approach could be applied under an SDR (or any other)

1/ It may be worth noting in this context that none of these problems are unique to an SDR standard. The same problems existed previously when the 1944 gold dollar was the Bank's standard of value, but they arose less frequently - because exchange rates changed less frequently - and they were normally encountered only as part of an explicit decision by the member government to change its currency's official par value. And, except for the United States, they would also exist if the current US dollar were adopted as the Bank's standard of value.

standard of value by permitting countries to exchange their own national currency for the SDR basket of currencies 1/, (or the currency or basket of currencies comprising the standard of value). The value of the national currency portion of their subscription would automatically remain constant in terms of the standard of value regardless of what happened to the exchange rates of the currencies they had exchanged with the Bank.

34. Callable Capital. As noted in the preceding section, expressing IBRD capital subscriptions in terms of SDR would provide important financial benefits to the Bank because of its effect on the long-term value of the callable capital guarantees. The cost to shareholders of providing callable capital in SDR rather than national currency is not financial - because there is no expectation of a call ever being made - but administrative. If expressed in SDR, subscriptions to the Bank would carry a contingent liability that varies in terms of the member's own currency. While this results in only minor inconvenience for some members, others, as a matter of law or policy, may be extremely reluctant in an environment of floating exchange rates to accept an IBRD callable capital obligation expressed in something other than their-own currency. Difficulties tend to be greater for those countries with more extensive legislative procedures applying to their Bank subscriptions.

35. A number of options have been explored for alleviating the difficulties associated with a contingent liability that varies in terms of national currency. It might be possible to work out procedures under which a member could temporarily set limits on its national currency liability, with the arrangements to be reviewed periodically.

1/ Since the IBRD has been designated by the IMF as an "other holder" of SDRs, governments could also provide SDRs themselves, though there would have to be satisfactory arrangements for assuring the Bank's ability to exchange SDRs for national currencies in connection with loan disbursements.

Section 4: Substitution of the US Dollar

36. The financial and administrative implications of a current dollar standard of value with the Bank and the member countries would be essentially the same as an SDR standard, with the important exception of the United States. Under this approach, references to the 1944 gold dollar in the Bank's Articles would be read as referring to 1.20635 current US dollars. The par value per share would thus become \$120,635 and members' subscribed capital obligations would be defined in terms of the current dollar. Taking the example of the General Capital Increase, GCI subscriptions and share allocations would be established in terms of a subscription price per share of \$120,635 rather than SDR100,000. The paid-in portion of each share would be \$9,047.62, or 7-1/2%, and \$111,587.38, or 92-1/2% would remain uncalled.

37. For all members other than the United States, the administrative and legislative requirements of a subscription to the Bank would be the same as under the SDR standard of value. That is, members would have variable national currency obligations with respect to both paid-in capital and callable capital. As compared to an SDR standard, the size and frequency of such variations might be greater for some members. However, for those countries that maintain the value of their national currency in terms of the US dollar, such variations might be less and perhaps more within their control.

38. For the United States, this option would have the same effect in terms of administrative and legislative requirements as abolition of a standard of value, that is, its subscription to the Bank would be fixed in terms of its own national currency. This would simplify procedures related to its subscription by firmly establishing the value of its obligations in its national currency at the time of agreement to capital increases.

39. Until July 1, 1974, the current dollar value of the SDR was also \$1.20635, and adoption of either the SDR or the current dollar as the Bank's standard of value would have produced the same aggregate value for the Bank's capital stock. Since that time, however, the value of the SDR has varied relative to the dollar. As of March 11, 1981, adoption of the current dollar rather than the SDR would result in reduction in IBRD capital (and commitment authority) by about \$700 million. How the dollar will vary relative to the SDR over the long term is a matter for speculation. In the past, the dollar, like the SDR, would have given a much stronger basis for capital stock than subscriptions in each member's national currency. It seems likely that it will continue to do so in the future.

Section 5: Multiple Currency Standard

40. The last option would be to seek to retain the advantages of a strong standard of value, but to give members a choice of currencies in which they can subscribe. This approach would be consistent with a view that in economic terms the successor to gold has not been the SDR but rather a multiple reserve currency system in which any or all of several national currencies act as international standards of value. Under this option, which is modelled on the arrangements agreed in the UNCTAD Common Fund, all members would gain slightly greater flexibility in subscribing to Bank capital stock.

41. One way to apply this scheme would be to permit subscriptions to be made in SDR or in any of the component currencies of the SDR at exchange rates on a given date. Using the rates in effect on the date of effectiveness of the General Capital Increase resolution, for example, the terms and conditions for GCI subscriptions might be amended to state that the purchase price of a share would be SDR100,000 or any of:

US\$132,108
DM226,631
FF531,140
Y313,757,000
L59,122

Each member would be permitted to choose any of these currency units in which to denominate its subscription under the GCI. Countries whose currencies are included in the SDR basket might perhaps be restricted to a choice of either their own currency or the SDR.

42. If a member country chooses the SDR, its obligations with respect to paid-in and callable capital would be just as described in Section 3. On the other hand, if it chooses one of the other currencies, its obligations would be expressed in terms of that currency alone. For example, suppose that a country chose to subscribe in DM. It would be required to pay in a total of DM16,997 per share (7-1/2% of the total subscription price per share), of which one-tenth (i.e., 3/4% of the subscription price) would be in gold or dollars and nine-tenths would be in the member's own currency (i.e., the equivalent of DM15,298 or 6-3/4% of the subscription price). Maintenance of value obligations would apply with respect to DM, not SDR. That is, the member (or the Bank) would have an obligation to make MOV payments so as to maintain the national currency portion of the paid-in capital at DM15,298 per share. The callable capital obligation would, of course, also be expressed in DM. In the event of

a call, the member would be expected to pay up to the equivalent of DM209,633 at rates prevailing on the date the call is made.

43. As noted in the Introduction, this option raises far-reaching legal questions under the Articles. Several other questions would appear to be important in considering the merits of this alternative: (1) What would its likely impact on Bank finances be, compared to the other options? (2) How would it affect member countries' subscribed capital obligations? (3) What would happen to the relationship between relative burdens and relative rights?

44. Bank finances. The potential impact of the multiple currency option on the Bank's finances cannot be determined without speculating about the choices member countries are likely to make and the behavior of exchange rates in the future. The SDR component countries (i.e., those whose currencies are in the SDR) may well choose to subscribe in their own currency, and this will change the behavior of their collective portion of capital subscriptions in response to exchange rate movements from what it would be with a pure SDR standard. The following table compares the proportions of these currencies in the SDR and the GCI. As the table indicates, the respective shares in the GCI and SDR are close enough so that one would not expect major differences in the SDR value of this group of countries' subscriptions under either option.

	<u>% Share of Currency in:</u>	
	<u>GCI</u>	<u>SDR a/</u>
US dollar	49.7	44.0
British pound	16.6	12.8
French franc	11.2	12.1
Deutsche mark	11.3	17.7
Japanese yen	11.2	13.4
	<u>100.0</u>	<u>100.0</u>

a/ At exchange rates of March 11, 1981.

45. Effect on Members' Obligations. The five member countries whose currencies make up the SDR basket would: (a) be able to know at the time a capital increase is agreed what their ultimate national currency obligation would be; (b) be relieved of the need to make maintenance of value payments with respect to paid-in capital; and (c) have a fully-determined callable capital obligation in terms of their own currency.

46. Other member countries would be in essentially the same position as under the SDR option. It seems probable that many of the "non-SDR" countries would choose to take advantage of the "hedging" potential of an SDR-denominated subscription and thus choose the SDR as their standard of value, although some might attempt to identify the potentially weakest currency in the SDR basket and subscribe in it. Some might gain a degree of flexibility and simplicity by being able to denominate their Bank subscription in the currency (e.g., the US dollar) against which they maintain their exchange rates.

47. Votes and subscriptions. At the time of a review of capital subscriptions, calculations relating to relative shareholdings and the allocation of new subscriptions among members would need to be done in terms of a common unit, most likely the SDR. Once this allocation of shares were agreed, members could choose which of six different currency units (the SDR plus its five component currencies) they wished to subscribe, at some agreed set of exchange rates. 1/ At the outset, therefore, all shares could entail the same financial burden for members, whether measured in SDRs, dollars, francs or any other currency. However, once different subscription currencies were established, the cost per share for the various classes of shares would begin to diverge from each other as exchange rates changed. By the time of a subsequent review of capital subscriptions, the divergences from the original equal burden per share could be substantial. 2/ These exchange rate movements would affect not only the relationship between, e.g., the UK and the United States, but also all countries that had selected the pound and the dollar as their standard of value. There could be six groups of countries, each having a different cost per share. The following table gives an illustration of the type of change that could take place in the GCI. The table assumes that the five SDR countries all choose their own currency as the standard of value and that all other countries choose the SDR.

1/ If all members were to choose as of a certain date, and the exchange rates of that date were used to determine equivalent subscription prices in the five currencies, there would be less risk that exchange rate movements might affect members' choice of a standard of value.

2/ The movement in exchange rates since January 4, 1980 (the date of effectiveness of the GCI) would have produced a differential of about SDR37,000 per share between the highest and lowest value per share (see table below).

Illustration of Effects of Multiple Currency Standard of Value (SOV)
on Relative Subscriptions and Voting Power in the GCI

Country	Exchange Rates ^{a/}	Initial Position				After Exchange Rate Changes		
		Price per Share		Total Subscription		Exchange Rates ^{a/}	SDR Price per Share	% of Total Subscr. ^{c/}
		In SOV	In SDR	In SOV ^{b/}	% Total			
US	1.32108	132,108	100,000	\$8779.5	21.95	1.22700	107,668	23.16
UK	.59122	59,122	100,000	£1314.2	7.34	.555218	106,484	7.66
France	5.31140	531,140	100,000	FF7977.2	4.96	6.11660	86,836	4.22
Germany	2.26631	226,631	100,000	DM3412.4	4.97	2.59142	87,454	4.26
Japan	313.757	313,757 ^{d/}	100,000	¥ 470.5 ^{d/}	4.95	254.603	123,234	5.98
Others	1.000	100,000	100,000	SDR16902.8	55.83	1.0000	100,000	54.72
Total					<u>100.00</u>			<u>100.00</u>

^{a/} Number of currency units per SDR. Initial rates are as of January 4, 1980, the date of effectiveness of the GCI resolution. Subsequent changes use rates as of March 11, 1981.

^{b/} The amount of the GCI has been set at SDR30,278.3 million (\$40 million divided by 1.32108) and the number of shares has been scaled down to 302,783.

^{c/} Measured in terms of a common numeraire (i.e., the SDR).

^{d/} Yen figures are in thousands.

Section 6: Existing Capital Subscriptions

48. The range of possible solutions to the valuation of existing capital subscriptions is much more limited than for future subscriptions. First of all, even with an amendment of the articles, abolition of a common standard altogether with respect to existing capital would entail legal and financial problems because of the Bank's creditors. Similarly, there would be problems in implementing the multiple currency option retrospectively, since the existing shares were all subscribed at an issue price of 100,000 1944 gold dollars.

49. The SDR or current dollar options, on the other hand, could be implemented for existing subscriptions in the same way as they would apply to future capital increases (including the GCI). Indeed, the General Counsel's 1978 opinion dealt primarily with the question of what members should understand by the term "US dollars of the weight and fineness in effect July 1, 1944" as it applies to their existing capital. Adoption of the SDR or the dollar as the Bank's standard of value would have the effect of re-expressing members' obligations with respect to shares already subscribed in terms of one of these units rather than 1944 dollars.

50. If the current dollar were adopted as the standard of value for existing subscriptions rather than the SDR, the Bank's capital subscriptions and commitment authority could be greater or less than the levels shown in the IBRD financial statements (which use SDR 100,000 as the value of a share of capital stock). As of March 11, 1981, this reduction would have been about \$700 million.

Section 7: Summary

51. A strong common standard of value helps the Bank and its shareholders by preserving commitment authority and financial strength and by maintaining a close relationship between members' rights and their obligations. Providing the stronger financial base for the Bank requires, of course, that members with depreciating currencies contribute additional resources.

52. Substitution of the SDR for the 1944 gold dollar would mean that commitment authority would be maintained in terms of a strong standard and the correspondence between votes and subscriptions would be preserved. Substitution of the current US dollar would have similar effects, and in addition for the United States would simplify procedures related to IBRD capital subscriptions. A multiple currency standard based on the SDR currencies would introduce a degree of flexibility for some members and extend the advantages of a current dollar standard to the other four SDR currency countries. The multiple currency standard would correspondingly weaken the link between votes and obligations over time.

Robert S. McNamara

IBRD Capital - Reference

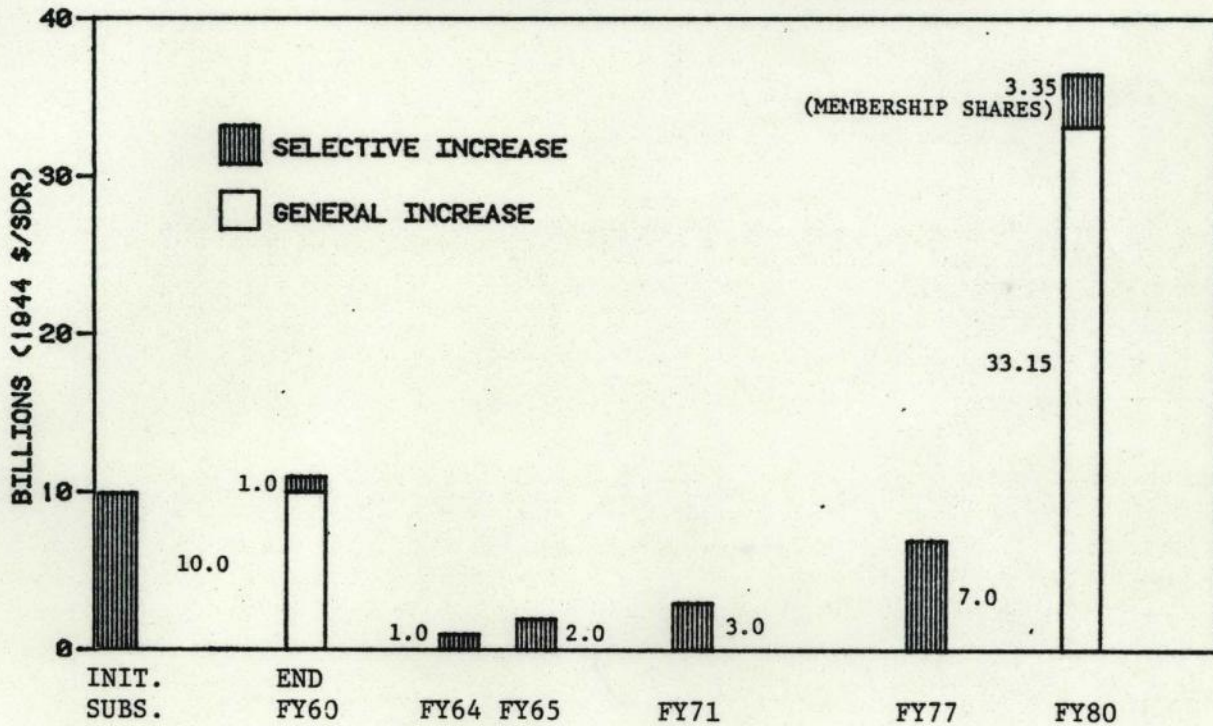
797/4/16

Section A.2: IBRD Capital

Historical Background

1. When the Bank opened for business in 1946, it had an authorized capital of \$10,000 million in terms of US dollars "of the weight and fineness in effect on July 1, 1944". 1/ Since then, there has been a series of capital increases to pave the way for an expansion in borrowing and lending activities, and for accomodating new members. The increases are shown in the chart below. 2/

IBRD AUTHORIZED CAPITAL



1/ The question of valuation of Bank capital is taken up in paragraph 6 below.

2/ Increases in subscribed capital have followed the increases in authorized capital, but with a lag as shares are allocated to and taken up by members. As of March 31, 1981, IBRD subscribed capital stood at \$39,069 million.

2. The Bank's authorized capital has been increased from time to time to provide for two types of capital increases (in addition to accommodating new members):

- general increases, which involve an equal percentage increase for all members; and
- selective increases, which provide for increases that are not equiproportional.

The primary purpose of selective increases has been to adjust members' relative subscriptions to correspond to their relative positions in the world economy. Except in two cases (France and Japan, see para. 11 below), all of the selective increases granted so far in the Bank have matched quota increases already agreed to in the IMF, under the so-called policy of "parallelism".

3. The general capital increase of 1980 marks the completion of a plan that was first put forward in 1975. By then, it was already clear that as a result of changes in the economic environment, including the first round of oil price increases, the external capital requirements of the developing countries were going to be substantially higher in the late 1970s and 1980s than anticipated earlier. The Bank's member governments agreed that a major redefinition of its role was called for, and approved a program that called for a significant growth in lending in real terms. Such a

program clearly needed substantial additional capital to support it. For tactical reasons, because it was apparent that the U.S. administration was unlikely to support an immediate large increase in the Bank's capital, the re-capitalization was divided into two steps, the first a selective capital increase that adjusted the relative positions of countries to reflect shifts in their economic strength, and following it a larger general capital increase.

4. The GCI became effective in January 1980 when it was approved by the prescribed three-fourths majority of the total voting power in the Bank. The GCI created additional authorized capital of \$40,000 million (in current dollars), which may be subscribed starting September 30, 1981.

Issues

5. Three different issues related to IBRD capital are currently at various stages of consideration. The position with regard to each is summarized below.

6. Valuation of capital. The valuation problem arises because the capital of the Bank, and the par value of the shares into which the capital is divided, is expressed in the Bank's Articles in terms of "United States dollars of the weight and fineness in effect on July 1, 1944" (the so-called 1944 gold dollar). With the coming into force of the Second Amendment of the IMF Articles from April 1, 1978, gold

could no longer serve as the basis for determining par values of national currencies and the par value system stood formally abolished. It became necessary therefore for the Bank to adopt a new unit of value in place of the 1944 dollar to determine the size of its capital, the subscriptions of its members, and the rights and obligations of the Bank and its members with respect to the subscriptions.

7. A detailed memorandum examining four possible approaches to the valuation question is scheduled for discussion in the Board on May 7. 1/ Based upon an informal Board seminar (held on April 15) and on separate meetings held with U.S. representatives and the representatives of the other major shareholders, our assessment is that this issue cannot be finally resolved now in a manner which will command the support of all major shareholders. Therefore, we expect to continue with the status quo. A memorandum describing the technical questions involved in defining the status quo is attached as a reference document. 2/

8. Legal and policy limits on new lending. Under the Bank's Articles, the total amount of disbursed and outstanding loans must not

1/ R81-57, dated March 20, 1981 (attached as first reference document).

2/ Memorandum dated May 1981 (attached as second reference document).

exceed the total of subscribed capital, surplus, and reserves (the "statutory limit"). The pattern of disbursements on Bank loans varies widely, but typically disbursements do not peak until four to six years after the commitment is made. The effect of the statutory limit on lending, therefore, is to require the Bank to obtain capital sufficient to cover the peak level of disbursed loans at least two or three years before that peak would be reached on a disbursed basis.

9. The Bank has in practice adopted a more restrictive policy on lending: IBRD lending is permitted to exceed the "steady state" level, i.e. the level of lending that can be sustained indefinitely with the capital already subscribed, only if it can subsequently be brought down to a sustainable level without causing "disruption". The idea is to avoid a situation in which member governments would either have to approve an increase in capital or accept a drastic reduction in lending.

10. It is against this background that proposals have been made for amendment of the the Bank's Articles of Agreement to provide for the liberalization of the statutory limit (or what the Brandt Commission has called the "gearing ratio") in order to enable the Bank to make do with less callable capital. Mr. McNamara's 1980 Annual Meeting Speech raised the possibility of such an amendment of the Articles. Subsequently, the matter was discussed at some length in the Board memorandum on expansion in IBRD/IDA lending. 1/ The

1/ R80-356, dated december 19, 1980; see Sections 5 and 6 (attached as second reference document).

memorandum argued that while amendment could prove useful for economizing on callable capital in the long run, there was little to be gained by immediate action. This was because, quite independently of the legal requirement, the Bank had a need for callable capital on purely financial grounds, and it appeared that the financial (rather than the legal) constraint might remain the dominant one for some time to come. Board discussion of this topic was not conclusive, however, and considerable interest in the amendment proposal persists.

11. Selective capital increases. Selective capital increases in the Bank other than on the basis of parallelism with the IMF have been rare. An exception was made in the case of France and Japan in 1979, when selective increases were granted which were not preceded by action in the Fund. The increase for Japan originated from the negotiations on IDA6, in which Japan agreed to increase its share substantially. The French request for a parallel selective increase generated considerable controversy: it was approved on the basis of an informal agreement among the Bank's largest shareholders to preserve their relative ranking. Later in 1979, requests for special increases were received from several other countries, most notably Saudi Arabia, Kuwait and the United Arab Emirates. More recently, Japan has expressed interest in a further selective increase, and has suggested that this would be a prerequisite for maintaining its share in IDA7 at the IDA6 level.

12. While approving the French and Japanese proposals in 1979, the Executive Directors decided that the policy relating to selective increases should be reviewed with a view to establishing agreed criteria to govern increases in the future. The management has subsequently circulated two separate memoranda to the Board on this subject, but the Executive Directors have deferred a discussion so far. The issue may become an active one once again now that a selective IMF quota increase for Saudi Arabia has been agreed to by the IMF Board; following precedent, this should lead to a parallel increase in Saudi Arabia's subscription in the Bank. The complication arises because the shares presently available for allocation in the Bank will not cover all pending claims for selective increases in subscriptions even on the basis of existing criteria. A paper reviewing the options available to the Bank is being prepared for management review.

Reference Documents

Valuation Issue

A.2.01 Board Memo

A.2.02 (To be supplied)

Lending Authority

A.2.03 Extract from Board Memo

Selective Criteria

A.2.04 Board Memo

797/4/11

Status of US Legislation

There are three pieces of legislation currently before the US Congress which bear directly on the World Bank:

1. Authorizing legislation for US participation in IDA6 and the GCI

This bill authorizes the appropriation of \$3.24 billion for US participation in the Sixth Replenishment and gives the US governor authority to vote for the GCI and to subscribe to not more than 72,760 shares.

2. Supplemental appropriation for FY81

This bill provides \$540 million for the first of three payments under IDA6.

3. Appropriation for FY82

This bill covers the second payment (\$850 million) under IDA6 and provides for the first of six tranches of the US subscription to the GCI. Each tranche involves appropriation of \$110 million for paid-in capital. In addition, it provides the authority to accept a callable capital obligation (amounting to \$1,383 million in FY82 and \$1,353 million in each subsequent year).

The following sections describe the status of each of these bills.

Authorizing Legislation

The Senate has already approved by a 58-32 margin an authorization bill for the full US contribution to IDA6. This bill (S786) does not include any provision for the GCI, but the House committee (Banking, Housing and Urban Affairs) has combined the two. The House bill (HR2613) has passed the full committee and is awaiting floor action. The House Democratic leadership has said to the Treasury that it will take the bill to the floor once it is given the names of 75 Republicans who have agreed to vote for the bill.

Our impression is that the prospects for the authorizing legislation are good. The Treasury and White House lobbying efforts have been quite effective. The two committees (Foreign Relations in the Senate and Banking in the House) are in close contact and no problems are envisaged in ironing out differences in conference. It is entirely possible that final action on the bill will occur before the end of May.

Supplemental Appropriation

The bill has been approved by the Appropriations Committee in the House. As with the authorization bill, floor action is being held up pending assurances from the White House/Treasury of sufficient Republican support.

The bill has encountered difficulties in the Senate. The Subcommittee on Foreign Operations marked up the bill on May 7.

Acting on a motion by Subcommittee Chairman Robert Kasten (R-Wisconsin), the amount was cut from \$540 million to \$408 million. Our information is that Kasten is trying to free additional budgetary authority for Ex-Im Bank by cutting back on the budget authority provided for other international affairs functions such as IDA.

Treasury is optimistic that the unfavorable vote in the Subcommittee can be reversed in the full Committee. The Chairman of the full Committee, Hatfield (R-Oregon), is an IDA supporter.

FY82 Appropriation

Action on this legislation is at a less advanced stage. The overall framework for FY82 spending bills will be set by the Budget Resolution for FY82 which is expected to be passed within the next few days. The Gramm-Latta version is said, by its supporters, to provide "enough room" for IDA6 and the GCI. It is unclear, however, precisely what this means. In general terms, the various Appropriations Subcommittees are to be given aggregate ceilings within which they are supposed to operate. The Subcommittees will apparently have some latitude to shift resources from one program to another--as Senator Kasten appears to be doing with the FY81 appropriation.

The following table shows the Reagan budget proposals for the international affairs function. This provides some indication of the programs which are likely to appear as direct competitors with IDA for budget authority in FY82.

FUNCTION CODE 150: BUDGET AUTHORITY
(millions of dollars)

<u>Foreign Aid</u>	<u>FY82</u>	
Foreign Economic and Financial Assistance:		
International Development Cooperation Agency	1,700	
Multilateral Development Banks	1,523	of which IDA \$850
Public Law 480 food aid	1,036	
Peace Corps	95	
Economic Support Fund/Peacekeeping	2,350	
Refugee Assistance	611	
Offsetting receipts and other	-364	
Sub-total	<u>6,951</u>	
Military Assistance:		
Grant military assistance	34	
Foreign military training	36	
Foreign military sales credit	850	
Relocation of facilities (Israel)	-	
Offsetting receipts and other	-286	
Sub-total	<u>633</u>	
TOTAL FOREIGN AID	<u>7,584</u>	
Conduct of Foreign Affairs:		
Administration of Foreign Affairs	1,281	
International Organizations and Conferences <u>1/</u>	1,099	
Other	43	
Sub-total	<u>2,423</u>	
Foreign Information and Exchange Activities	<u>687</u>	
International Financial Programs:		
Export-Import Bank	4,594	
Foreign military sales trust fund (net)	2,376	
International monetary programs	-	
International commodity agreements	239	
Sub-total	<u>7,209</u>	
TOTAL BUDGET AUTHORITY	<u>17,903</u>	

1/ Includes total assessed and voluntary contributions.

It is difficult to assess the prospects for FY82 appropriations at this stage. Of general concern to our supporters on the Hill is the feeling that some members of the Administration are only lukewarm in their interest to see this legislation through. They cited as evidence documents by OMB Director, David Stockman, criticising multilateral aid and press statements by senior Treasury officials downgrading the World Bank's importance.

By contrast, some other Treasury officials have spoken quite effectively in support of IDA6 and GCI legislation. Deputy Secretary R.T. McNamar has testified on IDA before the House Banking Committee. Secretary Don Regan has appeared before the House Foreign Operations Subcommittee.

A number of professional associations, church and trade groups, and labor unions are lobbying on our behalf. These include the League of Women Voters, US Chamber of Commerce, the US Catholic Conference, US Steel Workers, and the United Nations Association.

7/7/4/10

Energy Affiliate

13. The case for expanded energy investment in the developing countries has been stated in several places, notably the report last summer on "Energy in the Developing Countries", Mr. McNamara's Annual Meeting Speech, and the Board memorandum on expansion in IBRD/IDA lending. In August 1980 the Executive Directors endorsed the recommendation that the Bank should explore the establishment of an Energy Affiliate to provide additional financing to promote energy self-sufficiency in the developing countries.

14. Since then, informal consultations have been held with interested governments on various approaches to the formation of an affiliate. The Arab OPEC countries expressed special interest in participating in the discussions, and Saudi Arabia and Kuwait sent representatives to the two informal meetings held in Washington in November 1980 and February 1981.

15. These consultations have focussed mainly on the issues of funding for the Affiliate (including the financing of energy lending to the poorest countries), its organizational structure, and voting arrangements. Considerable general support has emerged for the proposal to set up an Affiliate, but differences remain on individual issues.

16. The previous U.S. administration was a strong supporter of the proposal to set up an energy lending institution affiliated with

the World Bank. There has been a marked change of opinion in the new administration, which has said that the United States will not participate in an Affiliate, although it has so far reserved its position regarding the desirability of expanded energy lending by the Bank (see the U.S. Executive Director's statement attached as the third reference document).

17. A report prepared in light of the consultations that have taken place so far has been distributed to the Executive Directors for a discussion in the Board on June 2 (see the fourth reference document attached). The report outlines the financial structure and organization of a possible Affiliate but takes no formal position; instead, it seeks a mandate for starting negotiations, through a broad-based body of Deputies to be designated by the Bank's Governors, to explore in detail the expansion of the Bank's energy lending program and the formation of an Affiliate to provide the financing required. The energy issue has also been included in the agenda for the Gabon meeting of the Development Committee in the third week of May.

18. Reports we have received from individuals who have attended preparatory meetings for the Ottawa Summit indicate that the United States remains very cool to the idea of an Affiliate. The objection most often voiced is that truly attractive energy projects can be implemented satisfactorily by the private sector without Bank

involvement. We have attempted to rebut that argument both in the Board memorandum (fourth reference document) and in various responses to questions raised by Executive Directors.

Reference Documents

- A.2.05 Chairman's Note: Meeting of November 1980 on the Energy Affiliate
- A.2.06 Chairman's Note: Meeting of February 1981 on the Energy Affiliate
- A.2.07 U.S. Executive Director's note on the U.S. position
- A.2.08 Board Memo on Expanded Energy Lending - Energy Affiliate

Energy Affiliate - Reference

717/418

ENERGY AFFILIATE: MEETING ON FEBRUARY 2-3, 1981

Note by the Chairman

1. General

As with my previous note, this note represents my recollection of the principal views expressed by participants at the informal meetings which were held on February 2 and 3, 1981.

2. Outline of Main Features of An Affiliate

Representatives of the four countries which had not attended the November 24th meeting indicated their support for an energy affiliate which would be closely linked to the Bank and which would be structured in such a way as to secure additional resources. The representative of the United States drew attention to the fact that the Reagan Administration was undertaking a fundamental review of its activities both domestically and internationally. The administration would be considering its approach to the energy affiliate as part of that review. Meanwhile the United States was not in a position to state its views on the main features of an affiliate. A number of representatives stressed the objective of additionality, both in terms of resources mobilized directly by the affiliate, and, more generally, in terms of the impact the affiliate might have on other sources of capital, both public and private.

3. Organization of the Affiliate

There were considerable differences of view concerning the appropriate organization for an affiliate. Some representatives spoke in favor of the "integrated" options (that is, the options based upon common staffing). These were seen as having several important advantages: they would permit the affiliate to get off to a quick start and to benefit from the Bank's accumulated experience. They would also involve the least problems of effective coordination. Moreover, some concern was expressed about the impact a completely autonomous affiliate might have on the Bank itself.

Other representatives felt that a more independent organization was needed. The options cited in Discussion Note 2 were criticized as being incomplete and the positive arguments for independence were not thought to be sufficiently articulated. The need for a bold approach to this problem was emphasized. Substantial autonomy was advocated as a means of creating an institution which could be more responsive to the needs of the developing

countries and of giving special focus to the work in the energy sector. Some representatives argued that substantial autonomy was essential if the affiliate was to be able to mobilize additional resources. Even if such autonomy involved some penalties in terms of operational efficiency, that was a price that had to be paid.

Several representatives of developing countries drew attention to the urgency of the problems they face. Since they thought it would take several years before a completely new institution could operate on a substantial scale, these representatives suggested that consideration be given to starting with an integrated approach and then moving gradually to a more autonomous organization over time.

On the subject of Board structure, several representatives favored a system in which the current Bank/IDA/IFC Directors would--to the maximum extent feasible--act as Directors in the affiliate. They would of course exercise voting power in line with the distribution of the votes in the affiliate. This approach was held to be desirable because it would facilitate a coordinated approach. Other representatives questioned whether a separate Board would not be necessary to make clear the independent character of the affiliate.

4. Capital Structure and Voting Arrangements

Representatives addressed their comments not only to Discussion Note #3, but also to a separate note circulated by the French representative.

Several representatives stressed that the capital structure and voting arrangements had to be such as to attract the support of financial markets. This led some of the representatives to favor Case I (in the Discussion Note), which provided for a majority position for the industrial countries as well as a substantially enlarged share for the capital-surplus oil-exporting countries. Other representatives felt that something in between Case I and Case II would be desirable both because it would be more consistent with current realities and more likely to attract additional resources.

The relatively low share of total voting power assigned to the non-surplus developing countries in the various illustrations was criticized by some representatives as being incompatible with the current trend toward increased developing country representation. It would represent a step backward from the position already held by these countries in the Bretton Woods institutions. Moreover, the nature of the affiliate as an intermediary which serves the interest of both borrowers and lenders was such that borrowers deserved a larger shareholding.

In response to the Chairman's request that representatives consider--by way of illustration--a voting structure based upon parity between developed and developing countries, each having perhaps 45% of the total votes, with the

10% balance held by the Bank (and possibly a part of this 10% distributed as "floating votes"), several representatives expressed support in principle for this approach. Some representatives, while regarding this as a promising concept, cautioned that the implications of this voting structure from the standpoint of the financial markets would need to be carefully considered. The representatives of Kuwait and Saudi Arabia welcomed this approach in particular because it did not draw distinctions among developing countries on the basis of classifications which were debatable and which could well prove to be temporary in character. Several other representatives cautioned against the use of categories of countries in establishing voting structure. Their experience in other institutions where this had been tried was not reassuring.

Strong support was expressed by some representatives for the idea of the Bank subscribing to shares in the affiliate. (The General Counsel pointed out that such subscriptions could only take the form of fully paid shares). This would be a useful balancing device and would provide a tangible link between the Bank and the affiliate that could benefit the affiliate in the eyes of the market. Other representatives questioned whether this idea might prove difficult to implement; it would not provide additionality and might jeopardize transfers to IDA.

There was widespread support for the idea of "floating votes" though questions were raised about the criteria which would apply in distributing such votes. Some representatives felt that only direct lending should qualify. Others believed that market access might be taken into account. Some representatives suggested that only long-term lending should be eligible and perhaps only if it were not protected by the affiliate's callable capital.

The possibility of some countries paying in a higher proportion of their subscription was also raised. This could be achieved by having two (or more) classes of shares involving different proportions paid in. Some representatives were only prepared to contemplate this approach if it were on an optional basis open to all potential subscribers. The question was also raised whether the capital surplus developing countries would be willing to lend directly to the affiliate. Representatives of these countries said they saw no difficulty, in principle, since they saw the affiliate partly as a device for re-cycling. Membership votes were widely accepted as a useful device, provided there remained a strong link between overall votes and subscriptions.

5. Lending in the Poorest Countries

While there was general agreement on the need to find a way to permit the poorest countries to benefit from the activities of the affiliate, there were no easy solutions to the problem posed by inadequate concessional resources. Several suggestions were made, including voluntary bilateral grants (either for IDA-type loans or for interest subsidies), segregation of part of the affiliate's paid-in capital for lending to the poorest, IBRD transfers to the affiliate, an expanded concept of enclave projects and shifts in the allocation of IDA lending among countries. The last of these possibilities was not intended to impose higher borrowing costs on the country receiving a reduced IDA allocation, since interest subsidies might be used to offset the higher cost of borrowing from the affiliate. There was a general sentiment that these, and perhaps other options, should continue to receive careful consideration.

6. Next Steps

I indicated, in conclusion, that it seemed desirable to put the elements of a proposal for an affiliate before the Executive Board in the near future. Some further bilateral consultations may be helpful and a few representatives indicated an interest in the possibility of another meeting of the advisory group.

February 3, 1981

717/4/9

ENERGY AFFILIATE: MEETING ON NOVEMBER 24, 1980

Note by the Chairman

1. General.

This note represents my personal summary of views expressed on the main points discussed by participants at the informal meeting on the energy affiliate on November 24, 1980.

2. The Program to be Financed.

There was widespread support for establishing an institution affiliated with the Bank which would have the objective of mobilising additional financing to undertake an integrated program of energy investments. The need for an integrated approach that gave full recognition to priorities and linkages within the energy sector as well as to the connections between the energy sector and other sectors was widely endorsed. Some representatives stated that their support for the new institution would hinge critically on it not being confined to a particular energy subsector. The program of the new institution should be comprehensive and should cover the entire energy sector. The program of investments identified by the Bank totalling \$30 billion over FY82-86 provided a useful framework; the precise nature and size of the program should be for the energy affiliate itself to determine.

While it was noted that some borrowers might have problems of absorptive capacity, it was emphasized by several speakers that the need for additional assistance was urgent and that a rapid start should be made on expanded lending for energy. It was also recognised that the need for an institution to finance energy investments would continue beyond the FY82-86 period.

3. Means of Financing.

Strong emphasis was placed on the principle of mobilising additional funds for developing countries. There appeared to be widespread support for the idea that the affiliate should be designed to enable it to tap finance available in the market. In addition to this market orientation, several speakers mentioned that the affiliate should not rely exclusively on market funding. There should be flexibility in the raising of funds and direct borrowings from governments could also provide an important source of financial support. The new institution should provide scope and encouragement for direct borrowing from capital surplus countries.

4. Capital Structure, Distribution of Shares, and Voting.

In order that the affiliate should be able to appeal to the market to the extent necessary and to provide a foundation for its direct borrowings, there appeared to be general support for a capital structure based on share subscriptions of which the major part would be callable and the balance paid-in. While not discussed in detail, it appeared that a ratio of 90% callable capital and 10% paid-in might be within a feasible range. There was considerable support for the view that the distribution of share holdings should reflect current economic realities, as well as the cooperative nature of the undertaking. The importance of an innovative approach to this issue and of "fair burden sharing" was noted. A general presumption which emerged from this discussion was that the pattern of share holdings could differ substantially from that in other institutions of the World Bank group. Some speakers suggested it might be helpful if the IBRD and perhaps the regional banks were to become shareholders. Several speakers noted that the structure should be consistent with the affiliate developing its own corporate identity.

On the question of voting, a number of suggestions were made to facilitate a future consensus on this issue. There was support for the view that the voting structure should, as far as possible, provide representation for all interests. The importance of a structure that encouraged financial support for the affiliate was also generally recognised.

A specific suggestion which received some support was that there might be an equal division of votes between industrialised countries and the capital surplus oil producers, while the arrangements should also make provision for the borrowing developing countries and the possibility of the Bank being a shareholder. Another speaker referred to a possible equal division of votes between the industrialised countries, capital surplus oil producers and other developing countries.

One speaker suggested that there need be no firm link between subscriptions and voting rights, but that the arrangements could not diverge too far. In this context it was noted that membership votes could play a role in balancing the weight of subscription votes. The notion of providing a system of "floating votes" (as is the case in the I.M.F.) that could be allocated to countries that gave special support in the form of lending to the new institution received considerable support. A further suggestion was that provision for qualified majorities for different types of decisions could be useful.

It was agreed that this matter would be pursued in further bilateral discussions in order to identify potential areas of compromise and that the staff would provide a note describing the various possibilities and alternatives for the next meeting of the group.

5. Organisation.

On the question of the organisation of the affiliate, it was generally accepted that the affiliate should have a link with the Bank. However, different views were expressed about the extent of this link. Several speakers emphasised the need for the new institution to have its own distinct personality. While a separate capital and voting structure would assure its independence from the Bank, it was also important for the affiliate to be able to develop its own identity, its own programs and relations with member countries and not be completely subsumed within the Bank. Other speakers pointed to the need to avoid a proliferation of bureaucracies and noted that a desire for very substantial autonomy could delay the start of the affiliate. Another speaker pointed out the need to reconcile the desire for the affiliate to have its own corporate identity with the desire for the lending activities of the affiliate to be fully integrated with the economic and sector analysis and general lending operations of the Bank. There was a request for a staff study on various forms of link with the Bank.

6. Poorest Countries.

One speaker urged that the creation of an energy affiliate should not lead to a hardening of terms to the poorest countries. At the same time, participants did not see additional grant funding being available at this point for a separate soft loan window of the affiliate. It was pointed out that co-financing arrangements, including co-financing with IDA, could help finance the concessionary assistance requirements of the poorest countries. It was also noted that the requirements for concessionary lending in FY82-86 only partly fell within the IDA6 period and would also be spread over the next replenishment. It was noted that the terms of lending of the affiliate could reflect project differences.

7. Next Steps.

The time of the next meeting will be arranged following consultations with participants for a date soon before or after Christmas. A memorandum would be prepared by the staff for this meeting covering alternative approaches to the various issues noted above.

The following timetable was outlined. The paper which had recently been circulated to the Board of Executive Directors on future lending of the Bank, including the need for expanded energy lending, would be followed by a paper in December on the means of financing the program. After the next meeting of this group, a paper on the energy affiliate would be issued to the Board of Executive Directors in January. If the Board agreed on the general approach to be adopted to the organisation and structuring of the affiliate and for negotiations on the affiliate to proceed, a meeting of the Deputies would then be called to

prepare a detailed proposal, including the drafting of Articles of Agreement. It is hoped a report could be prepared by the middle of 1981 reflecting intergovernmental agreement on a proposal for the affiliate. If necessary, transitional arrangements would be devised to enable a start to be made on expanded investments in energy in FY82.

Washington, D.C.
December 1, 1980

FY82 Lending Program

217/4/5

Expanded Lending and the FY82 Program

19. The December papers on Expansion in IBRD/IDA Lending and Means of Financing identified substantial needs for Bank lending not foreseen when the Bank began its planning for the General Capital Increase in 1977. The needs included assisting LDCs to make the structural adjustments necessary to respond to the sharply-increased external financing requirements associated with higher energy prices, expanding energy production in developing countries, increasing traditional project lending to preserve its value in real terms in the face of higher than anticipated inflation, and initiating lending to China. The first paper identified these needs and concluded that lending for these purposes should be additional to the present program, because of the developmental costs involved in cutting back lending in other priority sectors. The second paper discussed possible means of financing the expanded program, and concluded that an additional \$38 billion of lending might be feasible over the next five years.

20. The Means of Financing paper suggested that the expanded program could be considered on a step-by-step basis. The first step was to be the elaboration and consideration of a specific proposal for an Energy Affiliate. If the Affiliate appeared likely to be approved, the next step would be to consider transitional arrangements for financing some expansion in the lending planned for FY82, particularly

the expansion of energy lending, and lending for China, on an interim basis.

21. During the Board discussion, several Directors supported the Bank's proposal; others, particularly from some Part I countries, expressed reservations while indicating general sympathy for the idea. Only the U.S., where the new Administration had been in office less than ten days, indicated that it was not in a position at that time to support an expansion of the program. Subsequently, the U.S. indicated it could not support the energy affiliate proposal, and discussion of the expanded energy program was deferred, see para. 13 above).

22. It has been decided that the FY82 Operating Program and Budget should be prepared on the basis of no increase in the nominal lending levels above those assumed last year. A portion of the expanded programs for energy and China have been incorporated in these totals and other lending squeezed out. The table below compares the program proposed last year, the program considered feasible in the "Means of Financing" paper and the program underlying the FY82 Operating Program and Budget memorandum:

IBRD/IDA Lending Programs: FY82-86
(\$ billions)

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>Total</u>
<u>FY81 Budget Memorandum</u>						
IBRD	9.6	10.7	11.9	13.2	14.6	60.0
IDA	4.1	4.7	5.0	5.3	5.6	24.7
Total	<u>13.7</u>	<u>15.4</u>	<u>16.9</u>	<u>18.5</u>	<u>20.2</u>	<u>84.7</u>
<u>Means of Financing Paper</u> (Constrained case)						
IBRD	13.0	15.5	19.0	21.6	24.7	93.8
IDA	4.1	4.7	5.7	6.6	7.5	28.6
Total	<u>17.1</u>	<u>20.2</u>	<u>24.7</u>	<u>28.2</u>	<u>32.2</u>	<u>122.4</u>
Including:						
Restore IBRD's 5% Real Growth	.7	.8	.9	1.0	1.3	4.7
Provide 5% Real Growth in IDA7			.4	.4	.5	1.3
Structural Adjustment	.6	1.0	1.8	2.5	3.5	9.4
Additional Energy	1.2	2.1	3.8	4.3	4.8	16.2
China	1.1	1.3	1.5	1.8	1.9	7.6
<u>FY82 Budget Memorandum</u>						
IBRD	9.6	10.7	11.9	13.2	14.6	60.0
IDA	4.1	4.7	5.0	5.3	5.6	24.7
Total	<u>13.7</u>	<u>15.4</u>	<u>16.9</u>	<u>18.5</u>	<u>20.2</u>	<u>84.7</u>
Including:						
Additional Energy	.7	.6				1.3
China	.6	1.0				1.6