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The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

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McNamee papers

Role of the Bank
1977 (May - July)

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Role of the Bank - Correspondence 02

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7/19/77

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, Mr. J. Burke Knapp
FROM: ^{WCB} Warren C. Baum
SUBJECT: "Sector Lending" in FY 1977

DATE: July 25, 1977

Attached is a summary table you requested on "sector lending" in FY 1977, arising from our discussion of Mr. Ryrie's paper on the subject. Any definition of sector lending is somewhat arbitrary. The one that I have used is where the Bank project comprises all or the principal part of the investment program for the sector or sub-sector. On this basis, I have classified as sector lending all 7 loans for telecommunications and railways; in addition, 2 sector loans were made in highways (Ethiopia, Kenya feeder roads), 1 in irrigation (Malaysia) and 1 in water supply (Brazil). I have also identified separately the "line of credit" operations for DFC's and agricultural credit. The back-up tables from which the summary table was prepared are available from Mr. King.

I am also attaching copies of two internal Bank Guidelines on the subject; CPM 8.2 on Sector Lending and CPM 8.3 on Highway Sector Lending.

cc: Mr. King

WCBaum:rma

FY 1977 BANK/IDA LENDING BY SECTOR

	<u>No. of Loans</u>	<u>\$ Amount</u> <u>(Million)</u>
<u>Agriculture & Rural Development</u>	<u>84</u>	<u>2307.9</u>
* Agricultural Credit	9	374.0
** Malaysia Irrigation	1	39.0
<u>** Telecommunications</u>	<u>2</u>	<u>140.0</u>
<u>* DFC</u>	<u>25</u>	<u>756.2</u>
<u>Education</u>	<u>17</u>	<u>288.6</u>
<u>Non-Project (Program)</u>	<u>6</u>	<u>216.5</u>
<u>Industry</u>	<u>14</u>	<u>736.8</u>
<u>Population</u>	<u>4</u>	<u>47.3</u>
<u>Power</u>	<u>17</u>	<u>951.5</u>
<u>Tourism</u>	<u>4</u>	<u>98.6</u>
<u>Transportation</u>	<u>34</u>	<u>1047.6</u>
** Railways	5	150.5
** Kenya Feeder Roads	1	8.0
** Ethiopia Highways	1	32.0
<u>Urban</u>	<u>5</u>	<u>158.2</u>
<u>Water Supply</u>	<u>14</u>	<u>300.7</u>
** Brazil	1	40.0
<u>Technical Assistance</u>	<u>6</u>	<u>16.9</u>
	<u>Totals:</u>	
	<u>232</u> ^{1/}	<u>7066.8</u>
of which:	for Line of Credit:	34 1130.2
	for Sector or Sub-Sector lending:	11 409.5

Plus Proj Zones

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- * Line of Credit (Agriculture and DFC)
- ** Sector or Sub-Sector Lending

1/ This figure includes 4 Supplemental and 6 Technical Assistance Loans

CENTRAL PROJECTS MEMORANDUM NO. 8.2

SECTOR LENDING

1. There may be situations when the Bank could use its staff more effectively and make a greater contribution to the development of the borrowing countries if it were to focus more on the achievement of overall sector objectives, the improvement of sector policies and the development of appropriate institutions, and relatively less on the merits of specific investment projects. "Sector lending" is often referred to in this context as a suitable lending technique. "Sector lending" is also often proposed as a convenient means for accelerating the disbursement of loans in cases where a rapid transfer of resources is essential. These considerations take on added significance in the light of the energy crisis and the expanded objectives of the Bank's revised Five Year Program.

2. The purpose of this note is to consider more closely the meaning of such "sector lending" and the role it may usefully play in Bank operations. "Sector lending" has been loosely used to describe a variety of development aid activities. From the Bank's point of view, however, "pure" sector lending consists of the following elements:

- a) A review by the Bank of the investment program of the sector or subsector (e.g. highways, railways, telecommunications, power, water supply, livestock or steel) as a whole;
- b) A review by the Bank of the institutional capability to carry out that program;
- c) A review of the investment criteria by which individual projects or subprojects are to be appraised by the responsible authority;
- d) A determination of what conditions are appropriate as sector objectives, policy changes or measures of sector performance (e.g. tariff increases or institutional reforms); and
- e) A determination of the procedures for procurement and disbursement for items to be financed by the Bank.

If the Bank is satisfied on these five points and agreement can be reached concerning them with the borrower, the investment program for the sector becomes the "project", and the Bank finances certain parts of it that qualify for Bank financing under the criteria determined by paragraphs (c) and (e).

3. The merits of sector lending so defined are, in general terms,
 - a) It broadens the developmental impact of lending operations;
 - b) There are economies in the use of Bank staff;
 - c) It is possible to commit large sums; and
 - d) These sums can be quickly disbursed.

However, these general advantages are not necessarily exclusive to sector lending, nor does sector lending necessarily have such favorable results in all cases, as discussed further below.

4. With respect to the broader developmental impact and economies of staff use, it should be noted that though other development agencies have used sector lending for the purpose of introducing conditions relating to sector objectives and sector performance, the Bank has increasingly used such conditions in many of its ordinary project loans although this practice varies between sectors. Sector lending per se is not needed to achieve this objective. Furthermore, staff economies through the sector-lending approach presuppose that the institutions are experienced and well-staffed and capable of carrying out the investment program in accordance with the criteria established for investment, procurement and disbursement, and that the sector conditions can be adhered to by the borrower.

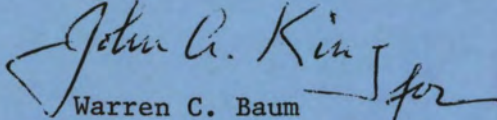
5. With respect to the prospects for large, rapidly disbursing loans, these advantages can be realized only if the program is large enough for a short-time slice to permit large commitments and disbursements under the agreed procurement and disbursement rules. These conditions are not inherent in sector lending in cases where the Bank-financed investment program is only getting under way and therefore consists of items at a relatively early stage of execution. For sector lending to result in fast disbursement, it must involve financing by the Bank of a list of items forming part of many subprojects in varying stages of execution; in particular, to gain the necessary momentum and to take full advantage of this type of lending, a series of loans, covering a number of successive time-slices of the program, is required.

6. The Bank has made very few sector loans including all the elements listed in paragraph 2; probably only some of the Mexican power loans, the Indian railway loans and the most recent loan for water supply in Brazil come close to qualifying. Typically, loans which might appear to be sector loans do not have all these elements. For example, while DFC loans are not based on Bank analysis of specific projects, they have not, at least in the past, been predicated on a review of the sector program and sector conditions have not been attached to them; industrial import loans are not made for specific projects and usually have some sector conditions attached to them, but there are no agreed investment criteria; for telecommunication and railway projects, the Bank reviews the sector investment program which is usually the project, and establishes sector conditions, but it also

makes a technical appraisal of the specific investments which make up the program/project as well; agricultural credit loans do not normally require agreement on a formal sector investment program or on sector conditions, although such agreements are common in some subsectors, e.g. livestock.

7. It seems likely that the prerequisites described in paragraphs 4 and 5 can be met in more cases than the few identified in paragraph 6 and if they can, the Bank can usefully do more "pure" sector lending. Although it generally requires both a large investment program and an experienced and sophisticated borrower and is, therefore, not a general purpose tool suitable for all countries and sectors, sector lending is a useful technique which can help to keep up the volume of lending and disbursements and provide an effective means for bringing about changes in sector objectives, policies and operations.

8. While greater use of sector lending is recommended here in suitable cases, other related techniques should, of course, continue to be used in cases where they are more appropriate. In many of the countries and sectors which have the most urgent and immediate need for help, the conditions for successful sector lending are, in fact, unlikely to be met. In such cases, other lending techniques will remain more useful; in some instances it may be possible to expand the scope of such projects to incorporate more of the objectives of "pure" sector lending.


Warren C. Baum

Vice President, Projects Staff

June 7, 1974

JAKing/HGvanderTak:lic

OFFICE MEMORANDUM

TO: Regional Vice Presidents

DATE: July 30, 1975

FROM: Warren C. Baum, Vice President, Central Projects Staff

SUBJECT: Implementation of Highway Sector Lending

1. In June 1975, the President approved the principles of highway sector lending as set forth in the policy paper of June 2, 1975. This was subsequently circulated on June 27, 1975 to the Executive Directors for their information and comment. The paper has now been converted into CPM No. 8.3 (attached).
2. The main objective of this policy is to establish specific targets and plans of action for achieving the institutional strength and planning/execution capacity in each Borrowing Country that are required to shift our highway lending to a sector basis.
3. Each Region is responsible for reviewing its highway lending program in each country for the possibility of placing future highway operations on a sector lending basis. The issues papers and subsequent appraisal reports for highway lending operations reaching the issues paper stage after September 1, 1975, should address the question whether or not the country is suitable for a highway sector loan. If the answer is negative, the reasons for this should be spelled out and specific plans (including timetables) drawn up for overcoming those deficiencies in the Borrower's capability that stand in the way. These plans should be incorporated in the appraisal report; discussed with the Borrower during project preparation and loan/credit negotiations; reflected in project elements of technical assistance and loan/credit conditions; and followed up during project supervision.

Attachment

Cleared with and cc: Mr. Knapp

WCBaum/EVKJaycox:be

CENTRAL PROJECTS MEMORANDUM NO. 8.3HIGHWAY SECTOR LENDING^{1/}1. CONCEPT OF HIGHWAY SECTOR LENDING

1. Bank loans in the highway sector have been for specific projects, that is, individual links in a country's highway network. These links are identified, appraised, and justified on the basis of their high priority. The Bank is well aware that the links it finances form only part of the total program. Substantial efforts have been made to place Bank-financed projects within the context of the total program. Where institutional weaknesses in the sector exist or when technical assistance is needed, these requirements have been incorporated into Bank projects. While much has been done to promote the development of the highway sector using a project-by-project approach, it does have some limitations in that it does not systematically address as a central issue the efficiency of overall highway sector investments and/or the capacity of the borrower to plan and implement sound highway programs. These limitations of the traditional project-by-project approach have been highlighted in two Operations Evaluations Department reports (Bank Operations in Colombia: An Evaluation and Comparative Evaluation of Selected Highway Projects). In order to enhance the effectiveness of Bank highway lending, this paper proposes, where appropriate, that the focus of this lending should shift from project-by-project lending to lending on a sector basis. This is a logical development of current lending techniques and would give the Bank an important additional instrument for achieving broader sector objectives.

2. A highway sector loan would be one in which the Bank participates in the financing of an agreed-upon investment program. This would be similar to the present approach to railway financing. The unique feature of this financing is that no major feature of a railroad's financial and investment program is outside the framework of the Bank's loan agreement. Similarly, in the case of highway sector lending, the loan agreement would cover general performance goals related to the investment program and to the use and maintenance of the highway network. In its disbursement features, a highway sector loan would be similar to a DFC operation. Agreement would be reached with the borrower on the conditions under which a component of the program (or sub-project) would be submitted to the Bank for review and disbursement. The actual sub-projects or program components to be financed (e.g., a road from A to B) would not need to be identified at the time of loan submission because the Bank would have an agreement on the total program and confidence in the borrower's capacity to plan and bring forward sound sub-projects in a timely manner.

3. Moving to a sector approach to highway lending could not be accomplished immediately in all countries. In many countries, the capacity to develop and execute a program does not yet exist. The development of this

^{1/} This term should really be highway sub-sector lending. The highway sub-sector is an integral part of the transportation sector. In this paper, the term sector lending refers to the highway sub-sector - to accommodate popular usage.

institutional capacity should become a major and specific goal of Bank lending for highways. The Bank should seek to put highway lending on a sector basis as soon as the institutional capacity can be developed. In those countries where this capacity does not exist, the Bank would continue to lend on a project-by-project basis but at the same time an effort would be made to develop the institutional capacity to utilize sector loans. In order to encourage this emphasis, a timetable would be established for reaching this goal in each country. The main purpose of the timetables would be to insure that those conditions which stand in the way of a sector loan for highways receive priority attention from both the Bank and the borrower. Naturally, the Bank would have to be flexible and realistic in setting these timetables and in evaluating the performance of the borrower in meeting them.

II. THE ADVANTAGES OF HIGHWAY SECTOR LENDING

4. The movement from a project-by-project approach to highway lending to the appraisal and financing of a program of investments in this sector offers a number of advantages for both the borrower and the Bank. Some of the advantages to the borrower are:

- (a) It would provide the borrower with a more assured source and amount of funding over a period of years for the agreed-upon highway development program. This does not imply larger total Bank lending for this sector, but rather a firmer commitment over a longer period of time, i.e., less frequent but larger loans.
- (b) It would allow the borrower to formulate and present sub-projects for review and disbursement at a rate in keeping with its institutional capacity; that is, it would avoid the discontinuities and delays inherent in the need to accumulate a sufficiently large number of sub-projects to justify a Bank appraisal mission.
- (c) It would encourage the creation of an efficient organization for the planning, design, procurement, and maintenance of the highway system. It would also help to relieve political pressures for financing politically attractive projects on an ad hoc basis, and thus it would help the borrower to achieve a program more closely related to the development needs of the country.
- (d) It would allow the borrower to have an overall appraisal of an agreed program that could be used as a basis for obtaining financial aid from other than Bank sources.
- (e) By smoothing the flow of financing and construction, and by assuring it sufficiently in advance, the sector loan could be a factor in encouraging the development of a domestic construction capacity.

5. From the Bank's point of view, the movement toward highway sector lending in place of project-by-project lending would:

- (a) focus the analytical effort and dialogue between the Bank and borrower on reaching agreements on broader sector policies and the development of the appropriate institutional capacities for executing a sector program;
- (b) improve the quality of the Bank's lending operations for highways by making it essential to develop the linkages between this sector and the overall economic development of the country. The demand for highway infrastructure derives from the transport demands generated by development. Sector work would thus become an integral part of lending in the sector rather than an adjunct to lending;
- (c) by providing the borrower with an assured source of funds committed in a sufficiently large amount, enable the Bank to exercise greater influence over the country's sector policies, institutional capacity, procedures, and operations; and
- (d) achieve a more efficient use of staff time by focussing staff efforts on the major problems and broader issues of the sector.

III. ISSUES AND PROBLEMS

6. A change to highway sector lending does, however, raise certain issues for both the Bank and the borrower. These issues need to be carefully considered before a decision is made to adopt the highway sector lending approach. Some of these issues are:

- (a) Sector lending, by its very nature, would mean a greater involvement by the Bank in the investment plans of the country. The highway sector is often an important source of political patronage, and governments may resist the Bank's attempt to exercise a greater influence over this part of their investment program.
- (b) It is not yet clear whether more or less staff time will be required. This is likely to vary considerably from country to country. It will certainly change the timing and emphasis of staff inputs. In the initial stages, for example, greater staff input may be required in developing a program and in insuring that sub-projects or components of the program submitted for disbursement meet the agreed-upon criteria. Once the Bank and the borrower have sufficient confidence and knowledge of the procedures and conditions for sector lending, future loans would take on more routine aspects which may save a considerable amount of staff time. It should be clear, however, that the basic reason for moving to a sector lending approach is not the saving of staff time, but rather the improvement in the quality of the Bank's operations in this sector.

- (c) Aside from the issue of staff inputs, there is also the question of whether or not the Bank can commit sufficient funds in order to maintain the sought-after influence over the program. This will be particularly true in the larger countries where the Bank's contribution, though substantial in absolute terms, is likely to be small compared to total program investments. Thus, if the Bank wishes to maintain the credibility of this approach without increasing the total flow of Bank funds for highways, it may have to commit in one loan the equivalent of a number of project-by-project loans over a substantial future period (up to five years). 1/ This has particular disadvantages with respect to programming the use of IDA funds.

One way of overcoming the problem of large commitments is for the Bank and the borrower to enter into co-financing agreements with other lenders. This would provide the borrower with an assured funding of the investment program and at the same time provide the Bank and other lenders with assurances on the feasibility of the total program, only a part of which they have agreed to finance.

- (d) Once a loan has been committed, influence over borrower performance would be exercised through the procedures for accepting sub-projects as eligible for financing (see paragraphs 13-16 below). This has the potential for greater conflict or less influence over borrower performance than the present practice of lending on a project-by-project basis. Under present practices a good deal of leverage is exercised by not appraising the next loan until deficiencies in the borrower's performance have been remedied. Should the Bank feel that the conditions of the sector loan were not being met, it would have to take the positive step of refusing to accept new contracts as eligible for financing.

IV. PROCEDURES FOR HIGHWAY SECTOR LENDING

7. The Bank would adopt as a long-run goal the placing of all highway lending (except captive roads) 2/ on a sector basis. In order to initiate this process, all applications for future highway loans would be

1/ Some internal revisions may be necessary in the Bank's own programming and budgeting procedures. For example, under present policies, highway loans of, say, \$25 million every other year may be the normal pattern. However, with the adoption of a sector approach, a commitment of, say, \$75 million may be required over the five-year period. Thus, in the early years of sector lending some increases could be expected in annual commitments to this sector. These problems should not be insurmountable.

2/ Captive roads are those roads the justification of which forms an integral part of another project, for example, a rural development project or an iron ore mine.

examined to see if a sector loan would be appropriate. If the conditions are not suitable for a sector loan, the deficiencies would be identified and an action program for overcoming them complete with timetables would be outlined in reasonable detail and become part of the appraisal report. At such time as a sector loan is suitable, the following procedures would apply.

Appraisal of the Program

a. General Conditions

8. The Bank would appraise and reach agreement with the prospective borrower on all major components of its highway investment program. This program would constitute "the project" and if circumstances required substantial changes in the program, these would form the basis for consultation and further agreement with the Bank. The period of time of the program could vary considerably, depending on the amount of detailed preparation undertaken and the ability of the government to express with some degree of certainty its plans for the years ahead. Normally an attempt would be made to have the highway program period coincide with the country's planning period. The focus of the appraisal of the program would be on such factors as:

- (1) The adequacy of the proposed program in relation to the development needs of the country.
- (2) The balance of investments in main roads, secondary roads, and feeder roads.
- (3) The appropriate role of highway investments in relation to other modes of transport.
- (4) The adequacy of the planned program of maintenance.
- (5) The adequacy of policies to insure proper utilization of the network - road pricing, vehicle weight limitations, safety regulations, etc.
- (6) The adequacy of the criteria used to appraise the technical and economic feasibility of projects within the program.

9. One of the main purposes in moving toward sector lending is to upgrade the overall highway program in terms of its economic merits and the priorities of its constituent parts. It must be recognized that any program may, however, have some elements which will not be justified on strictly economic grounds. The Bank will have to adopt a realistic posture in this regard, provided that the exceptions are relatively minor, while exercising its influence in the desirable direction as vigorously as possible.

b. Institutional and Management Capabilities

10. One of the essential features and advantages of the sector lending approach is its focus on the institutional capacity within a country to manage and execute its investment and maintenance programs in an efficient manner. In appraising a sector loan, the components of the institutional part of the program would have to be examined and a judgment would have to be made on such matters as:

- (1) The organization for handling highway administration, costing, project study and design, economic evaluation, procurement procedures, construction supervision, and road maintenance.
- (2) The arrangements for recruiting and training capable local staff in sufficient strength and for retaining and utilizing consultants to fill short-term needs.
- (3) The related institutional facilities required to support the execution and operation of the program (for example, other government agencies; technical, educational, and vocational training facilities; traffic police, vehicle weights; etc.).

11. Many of the countries borrowing from the Bank have institutional deficiencies. The correction of some of these deficiencies would form an important part of any sector loan. Sector lending should not be undertaken, however, where the institutional problems are serious enough to endanger the efficient execution of the proposed program.

c. Financial Planning

12. In order to insure the execution of the program in an efficient manner, it will be necessary to formulate a financing plan covering both domestic and foreign resources. The Bank would examine with the borrower the available domestic contribution to the investment program along with the amounts, terms, and conditions of possible external sources of assistance. The financing plan agreed upon could form the base for both Bank participation and other interested donors. The time period for the financing plan could vary considerably, depending upon the circumstances of the country concerned.

Disbursement Procedures

13. Once the Bank has agreed on the overall program and on the proportion of the program it is prepared to finance, disbursements would be made against contracts eligible for financing provided:

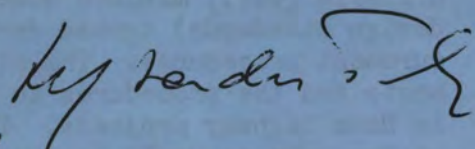
- (a) the sector conditions of the loan agreement, covering policy and institutional measures, are being met; and
- (b) the sub-projects or lists of goods submitted to the Bank conform to the economic and other criteria agreed during negotiations and to the agreed procurement procedures.

V. TRANSITION PERIOD

17. During the transition period toward sector lending for those borrowers that are not immediately capable of it, the emphasis of project lending will be on institution-building and the related technical assistance and training requirements. As progress is made toward specific goals, certain aspects or parts of the road program may become amenable to treatment on a sector lending basis (e.g., main roads, feeder roads, certain states, maintenance, or a limited percentage of the program on an experimental basis, etc.). The Bank should take advantage of these opportunities. In other words, the lending on a sector basis can be achieved by increments where this appears reasonable.

VI. CONCLUSIONS

18. Movement toward highway sector lending would be an important step in the direction of improving the efficiency and quality of Bank lending in transportation. It would require that the Bank place greater emphasis on the development of the sector and the relationship between the highway sector and other forms of transportation and the relationship of these to the economic development of the country. It would insure that work in the sector becomes an integral part of Bank operations. It would assist borrowing countries in formulating investment programs and sector policies that fit the needs of the country and in insuring to them secure and timely sources of financing. It would focus Bank attention on institutional requirements where and while these stood in the way of achieving the goal of sector lending. The Bank and the borrower would be concentrating on larger and more fundamental issues and problems than the provision of individual roads. While the approach to sector lending also raises some serious issues, such as how the Bank's leverage can be effectively exercised after the sector loan has been made and how Bank/IDA funds can be programmed over a period of years, on balance there appears to be a considerable weight of advantage in moving as rapidly as feasible toward a generalized policy of highway sector lending.


for Warren C. Baum
Vice President, Projects Staff

Transportation and Urban Projects Department
July 30, 1975

a. General Criteria Governing Eligibility for Financing

14. The borrower would be eligible to submit to the Bank projects or sub-projects for disbursement provided the borrower is meeting the sector conditions agreed upon with the Bank. The Bank would require the achievement by the borrower of performance goals related to the execution of the program. The following are examples of what might be included in these performance goals:

- (1) Annual physical completion targets for the construction and improvement of different classes of road to appropriate standards.
- (2) Minimum levels of routine and periodic maintenance efforts on different classes of road in the highway network.
- (3) Total proposed annual purchases of equipment and materials for road maintenance.
- (4) Improvements in institutional arrangements in accordance with an agreed-upon timetable.
- (5) Annual targets for expenditures within agreed-upon limits.

15. Whether or not the sector performance goals are being met would be a matter of judgment. In many cases, some of the goals would be met, while in other cases, certain difficulties would be encountered. In the event that the Bank concluded that insufficient progress was being made in reaching the overall goals of the program, it would inform the borrower that it was unwilling to accept any further new contracts for disbursement until it was satisfied that sufficient progress was being made toward these agreed goals.

b. Eligibility of Sub-projects for Financing

16. The borrower would submit to the Bank individual road investment sub-projects falling within the agreed program as and when they are ready for financing. These sub-projects would have to meet the technical and economic criteria (e.g., minimum acceptable rate of economic return, appropriate design standards) agreed during negotiations and conform to the agreed procurement procedures. The eligibility of specific sub-projects for disbursements and the procedures to be followed would be the same as currently used in Bank highway projects. The procurement procedures to be followed would be the same as would be appropriate in the case of regular project lending. The composition of the sub-projects to be submitted to the Bank would have to be discussed and agreed upon prior to loan presentation. Thus, where it was felt, for example, that the borrower, in order to avoid international competitive bidding, might be tempted to submit to the Bank only those projects where force account was most appropriate, the Bank would require that all or a specified part of the program submitted to it contain projects which were suited for international tender. 1/

1/ In certain cases after the borrower has had some experience with sector lending and the Bank is confident of the borrower's ability to successfully appraise and execute sub-projects, the review process for these sub-projects could become increasingly perfunctory and the sector loan could be more in the nature of financing a time-slice out of the borrower's investment program.

7/11/4/20

OFFICE MEMORANDUM

TO: Files

FROM: Joe Wood

SUBJECT: Discussions with Kuhn Loeb

DATE: July 18, 1977

Those attending: from Kuhn Loeb - Messrs. Istel, Stein, Waskolowitz
from the Bank - Messrs. McNamara, Cargill, Wood

1. Mr. McNamara opened the meeting with a brief summary of his principal concerns about the Bank's financial management. A first concern is that the Bank is inadequately leveraged. The Articles of Agreement constrain the Bank so that it underutilizes its real financial strength. A second concern is how to exploit all alternatives for lowering the Bank's cost of borrowing. The Bank's entry into medium-term markets in the U. S. and abroad have helped, as has the increase of 2-year Central Bank issues. A third concern is to increase the Bank's penetration of capital markets around the world. One major source of funds not yet tapped is the Eurobond market (in dollars) which the Bank has so far stayed away from because of the substantially higher costs of distribution in that market as compared to New York. Mr. McNamara also referred to the potential for increased penetration of the U. S. market through sales to individual investors and to insurance companies.

2. Mr. Istel responded to these remarks by saying that he and his colleagues had taken the current Articles of Agreement as given, but had tried to find ways of increasing the use of the Bank's financial strength within the constraints imposed by the Articles.

3. Commodity Bonds. The discussion then turned to the ideas raised in Mr. Robinson's letter to Mr. McNamara (dated June 2, 1977). Mr. McNamara said that he sensed very little interest in commodity bonds, either in this country or in Europe, but he felt there was a major potential role to be played by the Bank in the Gulf/Pakistan type deal. In fact, of all the ideas suggested by Mr. Robinson, this one seemed to Mr. McNamara to be the most promising.

4. Sales from Portfolio. Referring to the ideas related to sales from portfolio, Mr. McNamara said that the part of the Bank's portfolio due from Part I borrowers was rapidly declining, so that he did not see a major potential there. He also said the Bank's prohibition against taking exchange risks would rule out the "currency indemnification" idea. On the other hand, he thought the idea of selling loans at a floating rate might well be worth considering. Mr. Istel said that his firm had helped the Ex-Im Bank several years ago sell off parts of its portfolio which were no longer part of its main line of activity, and he thought that there could well be a similar role played vis-a-vis the World Bank. He also saw the sales at floating rates as an indirect way of exploiting the cost advantages of short-term money market rates.

5. Co-financing. Mr. McNamara said that the idea of a "rolling guarantee" was an interesting one and new to him. He mentioned, as an alternative, the possibility of entering into an arrangement with commercial banks (either individually or with a group of banks) in which the commercial bank would express its firm intention to do, say, \$200 million a year of co-financing for each of the next few years. The co-financed portions could be picked from the Bank's large pipeline of projects, assuming of course that the financing was acceptable to the borrowing country. Mr. McNamara noted that the World Bank had not been very enterprising in exploring new avenues of co-financing with the private sector. He said the Bank had been mainly preoccupied with building up the volume of its own direct borrowings. He thought an outsider would consider the Bank's approach a conservative one, but this conservatism was to a large extent a prerequisite for the dramatic expansion in the IBRD borrowing which had taken place in recent years.

6. The discussion then concluded with a series of general observations about the Bank's financial potential and the constraints it faced. Mr. McNamara referred to the "myths and political constraints" which limited the Bank's capacity to use its full financial potential. The constraint on leverage was but one of these. It might be possible after the next capital increase to relax this constraint somewhat. It might also be possible to move to a less costly maturity distribution of the Bank's borrowings, and to follow a more rational liquidity policy. Mr. McNamara said that the fundamental problem was how to find external finance for a developing country deficit which, by 1985, could approximate \$70 billion. The Bank had devoted a great deal of time and energy to educating governments as to the scale of this problem. The next step was to lay out alternative solutions to the problem.

7. In summing up Mr. McNamara encouraged Kuhn Loeb to seek out more deals of the Gulf/Pakistan sort. Mr. Istel said that they would try and that in addition they might put to us further proposals for sales from portfolio. After the Kuhn Loeb partners had left, Mr. McNamara asked for a memorandum to be prepared on new financial initiatives (he termed them "unthinkable thoughts") for him to consider after the General Capital Increase had been negotiated.

Mr. McNamara

cc: Messrs Knapp, Cargill, Gabriel,
Rotberg, and Hornstein

DJW:dw

FM/4/19
7/19

OFFICE MEMORANDUM

192 TO: The President and All Executive Directors

DATE: 1 July 1977

FROM: W. S. Ryrie

W.S.R.

SUBJECT: THE PATTERN OF WORLD BANK LENDING

We have as yet had no substantive discussion of the issues raised in the President's paper on "The Future of the Bank and its Associated Capital Requirements". Questions closely related to a capital increase must, we have agreed, be considered later. But I think we could usefully discuss some other issues informally in the next few weeks.

2. The pattern of Bank lending, including sectoral priorities and types of projects, is one such area. I think it would be useful to review our sectoral priorities. But in this note I am concerned with the question of types of projects. In particular I should like to raise the question whether the trend towards smaller discrete projects on average is desirable, and whether the Bank should be thinking of moving in the opposite direction by concentrating more on sectoral projects, each of which would cover a substantial part of a borrowing country's economy. These questions were touched upon during the Board discussion of the Financial and Operating Programme and Administrative Budgets for FY 1978.

'creating context' -> No same trend

3. The following are some relevant facts :

- (1) The ratio of expenditure on administration for IBRD and IDA to new commitments in real terms was as follows :

	$\frac{\text{FY 67}}{1:36}$	$\frac{\text{FY 77}}{1:32}$
--	-----------------------------	-----------------------------

- (2) The average size of lending operations was as follows :

	$\frac{\text{FY 67}}{42.7}$	$\frac{\text{FY 77}}{31.96}$
(FY 77 \$000)		

Not typical

- (3) The figure for average manweeks per project supervised has risen from 10.6 in FY73 (the first year for which such figures are available) to an estimated 12.7 in FY 78.

4. During the Board meeting on 21 June, the President pointed out some of the reasons for the trend towards smaller projects, and drew attention to Table 19 in the Annex of Tables to R77-135. The Bank has been moving towards more specialised staff-intensive discrete projects and many projects now involve examination of aspects which were frequently ignored in the past, e.g. environmental considerations and effects on income distribution. There is no suggestion that the staff is not being used efficiently or that these additional tasks are not being performed at a high level of expertise. No

Yes but Prof

/ doubt

*Admin costs
SD-29 cost
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be
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costly 52,
dec 1972*

cc: Mr. Burke Knapp
Mr. Baum
Mr. Damry

doubt they are. But I think we should ask ourselves the question whether this is the only way in which the Bank can contribute to the development of member countries, or whether we ought not to be looking for alternative ways of channeling Bank funds and expertise to these countries. I make this suggestion for two reasons; first, I think that it might provide opportunities for Bank expertise and help to be made available over a wider field than is possible through narrower projects, and, secondly, I feel that in time it could produce administrative savings for both the borrowing countries and the Bank.

*wish to be
done
possibly
designing
and
should not
miss
out on
money*

5. I am not suggesting that the Bank should give up the traditional type of project at which it is so good. This type of work is extremely valuable, partly as a type of technical assistance, setting high standards and developing good practice in project appraisal and control. But there may be a case for some change of emphasis

6. The Bank's Articles require us to provide loans for "projects" except in exceptional circumstances, and the Bank has always been highly skilled at the planning, appraisal and supervision of projects in a rather narrowly defined sense. In the abstract, I can see an argument for a much wider approach, e.g. through "development programme loans". The Bank would assist countries in the preparation of national development programmes and contribute a percentage of the overall costs over a period of years. It would, of course, review and monitor progress as time went on. But this would be contrary to the Articles as they stand, and might be undesirable in putting the World Bank more into a role of supervision of national policies than many countries would be prepared to accept. But perhaps a modest move in this direction, consistent with the Articles, would be desirable. In practice, when appraising a particular project, the staff normally make an overall appraisal of the sector involved, e.g. a power station project has to be seen against the background of the power sector. What I have in mind is that in cases where we can be satisfied, through such a sector appraisal, that the sector programme is balanced and that the borrowing country has the administrative ability to carry it through (if necessary with appropriate technical assistance from the Bank or other donors), we should be ready to provide a loan or credit in support of the overall programme instead of selecting discrete projects within it.

7. This would not, of course, be an entirely new departure for the Bank. Some of our present operations are related to fairly wide sectors, for example the loans for agricultural extension work in Indian States or a number of DFC loans. But I think that generally this approach has been adopted in situations in which it is difficult to identify narrower projects for Bank financing and perhaps for that reason. What I am suggesting is a deliberate decision by the Bank actively to seek out other situations in which the technique of sector or sub-sector lending could be applied. This may be useful both in countries with advanced planning capability, and those where integrated planning is not so well developed.

8. One argument for the narrower type of project is that it affords the Bank better financial control. This is a matter of balance. Financial control is

/ not

not an end in itself. If some measure of precise control is sacrificed for a greater influence over policies in a wider field, there may be a net gain in terms of the Bank's objectives. Admittedly, the traditional type of project, involving very detailed investigation and very careful supervision, is naturally satisfying to the professional staff of the World Bank. Factors like this may almost unconsciously influence the choice of project, but clearly they should not do so.

9. Another reason for moving in this direction is the size of the Bank's staff. The staff has grown less rapidly than the number of lending operations over the last ten years, but the size of the average lending operation has been declining. It is already almost 4500 in total, and the paper on the Future Role of the Bank envisages (page 40) that it will rise to about 7000 over the next 10 years, i.e. maintaining about the same ratio to lending operations as in the recent past. Should this ratio be accepted and continued?

10. As the paper on the Future Role of the Bank points out, a staff of 7000 or so is not enormous in comparison with many other organisations, but I suspect that if the Bank grows much above its present number, new management techniques will have to be considered. However, it seems to me that from many points of view there would be advantage in avoiding growth to such a size. The larger the Bank staff, the more likely there is to be criticism of it as a swollen bureaucracy. Additional problems of management will arise in an organisation which will be more impersonal. In any case, the developing countries need the same kind of people as the Bank employs, and the Bank sometimes competes directly with developing countries for them.

11. I should like to suggest that we discuss these questions informally some time this month.

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International Bank for Reconstruction and Development
International Development Association
International Finance Corporation

7/11/4/17

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SecM77-468

FROM: The President

June 1, 1977

INTERIM FINANCIAL AND OPERATING PLAN

Attached is a table summarizing the principal features of the "Interim Financial and Operating Plan" which I am using as a basis for day-to-day decisions. The figures for FY78 and FY79 are identical to those presented to the Executive Directors in the FY78 budget document. The figures for FY80 through FY83 have been developed on the basis of what I consider to be reasonable assumptions, but assumptions which have neither been considered in detail nor approved by the Executive Directors. In distributing the "Plan" to the Executive Directors at this time, I am not seeking formal or informal approval of it, but wish simply to inform the Directors of the medium-term framework which is presently guiding management decisions.

Robert S. McNamara

Distribution:

Executive Directors and Alternates
Senior Vice President, Operations
President's Council

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711/4/18

IBRD Subscribed Capital Requirements Under Alternative Assumptions
(current \$ billion)

A. Alternative Assumptions Regarding Frequency

	Commitment Growth Rate (Real)				
	<u>0%</u>	<u>3%</u>	<u>5%</u>	<u>7%</u>	<u>9%</u>
Capital Sufficient to Sustain Growth Through					
FY83	19	25	30	35	41
FY84	[25]	32	38	46	55
FY85	[31]	39	48	59	[69]

Other assumptions: (i) "non-disruptive adjustment" interpreted as a decline of 6% in nominal terms each year for four years.

- (ii) long-term inflation rate assumed to be 7% per annum
- (iii) repayment terms: grace period 4.3 years
final maturity 20 years
amortization - annuity pattern

B. Alternative Assumption Regarding "Non-Disruptive Adjustment"

Interpretation of "Non-Disruptive Adjustment" (Peak Year = 100)				Commitment Growth Rate (Real)				
				<u>0%</u>	<u>3%</u>	<u>5%</u>	<u>7%</u>	<u>9%</u>
<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4 et seq</u>					
100	100	100	100	25	33	39	46	53
94	88	82	76	19	25	30	35	41
92	84	76	76	18	24	29	35	41
90	80	80	80	18	24	29	35	41

- Other assumptions: (i) capital sufficient to sustain growth through FY83
(ii) long-term inflation rate assumed to be 7% per annum
(iii) repayment terms: as above

C. Alternative Assumptions Regarding Repayment Terms

Grace Period	Final Maturity	Method of Amortization	Commitment Growth Rate (Real)				
			0%	3%	5%	7%	9%
3.8	18.0	EPP	11	16	20	24	29
4.3	18.0	EPP	[12]	17	21	25	[30]
4.3	18.0	Annuity	[17]	21	25	30	[35]
4.3	20.0	Annuity	19	25	30	35	41
4.3	21.5	Annuity	[23]	28	33	38	45

- Other assumptions:
- (i) capital sufficient to sustain growth through FY83.
 - (ii) long-term inflation assumed to be 7% per annum
 - (iii) "non-disruptive adjustment" interpreted as a decline of 6% in nominal terms each year for four years.

P&B
5/18/77

7/19/4/16

WE BELIEVE THE INDUSTRIALIZED COMMUNIST COUNTRIES ALSO SHOULD INCREASE THEIR DEVELOPMENT ASSISTANCE. WE ARE PREPARED TO JOIN WITH THEM IN SUCH ASSISTANCE, WHEN AND WHERE THEY ARE WILLING TO DO ^{SO} IT.

WE SHOULD AGREE HERE TO SUPPORT A SUBSTANTIAL INCREASE IN THE GENERAL CAPITAL OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SUCH AN INCREASE WOULD NOT ONLY PERMIT THE WORLD BANK TO EXPAND ITS NORMAL LENDING IN REAL TERMS. IT ALSO WOULD ENABLE THE BANK TO UNDERTAKE NEW PROGRAMS IN AREAS OF GROWING IMPORTANCE --ENERGY, RESOURCE DEVELOPMENT, AND COMMODITY DIVERSIFICATION.

THE DEVELOPMENT OF LOCAL OIL, COAL, GAS, AND OTHER ENERGY RESOURCES IN DEVELOPING COUNTRIES POOR IN ENERGY WILL HELP EASE THE RISING FINANCIAL BURDEN OF HIGH-PRICED /OIL IMPORTS. THE UNITED STATES

7/11/4/15

OFFICE MEMORANDUM

TO: Mr. Hal F. Reynolds, Executive Director

DATE: May 20, 1977

FROM: D. Joseph Wood, Assistant Director, P&B

SUBJECT: Treasury Request for Information on IBRD Financial Projections

Please find attached the items of information requested in the second part of Mr. Thomson's memorandum of April 4th and discussed in our meeting with Mr. Thomson and Mr. Frederick on April 28th. They follow the sequence set out in Mr. Thomson's memorandum; namely

Response to Question A. The division of future IBRD commitments between middle income and the poorest countries. The classification of countries into these two categories follows the Role of the Bank paper.

Question B. Distribution of future borrowing by currency. We agreed on April 28th not to pursue this item.

Response to Question C. Projections of returns on various IBRD assets and liabilities.

Response to Question D. As agreed at the April 28th meeting, two items of information are being supplied. The first item shows the approximate distribution of total project financing separately for the IBRD and IDA over the last few years. You will note that not all IBRD loans are covered in this table. The second item provides material which can be used to estimate the outer limits for sales of participations in IBRD loans to commercial banks.

I believe this information now covers all pending requests from the Treasury concerning IBRD financial projections. If this is not the case, or if there are new requests, please let me know.

Attachments

IBRD Lending by Income Category FY78-85 a/
(\$ millions)

	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>
Poorest Countries	783	789	840	887	945	1055	1131	1210
Middle Income Countries	4077	4528	5182	5799	6402	7250	7755	8279
High Income & Oil-Exporting Countries	<u>1240</u>	<u>1483</u>	<u>1678</u>	<u>1814</u>	<u>2153</u>	<u>2345</u>	<u>2514</u>	<u>2712</u>
Total	<u>6100</u>	<u>6800</u>	<u>7700</u>	<u>8500</u>	<u>9500</u>	<u>10650</u>	<u>11400</u>	<u>12200</u>

Effect of Shortening Maturities for
Middle Income Countries by 25%

	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>
Increase in Loan Repayments	-	-	-	-	58	168	309	491
Reduction in Net Income <u>b/</u>	-	-	-	-	-	1	2	3
Net Effect on Cash Flow	-	-	-	-	58	167	307	488

a/ As shown in Annex Table 1 to "Future Role of the World Bank and its Associated Capital Requirements" (R77-18, dated January 31, 1977).

b/ Calculated by applying the spread of .50% between the assumed lending rate on new lending (9.00%) and the assumed average cost of new borrowing (8.50%) to the reduction in average disbursed loans which would result from shorter maturities. Ignores secondary effects on liquid holdings and retained earnings.

IBRD Financial Indicators: FY78-85 a/Key Interest Rates (%)

	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>
Lending rate <u>b/</u>	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Average return on disbursed loans	6.85	7.30	7.66	7.90	8.14	8.40	8.55	8.60
Return on new disbursements	8.25	8.52	8.70	8.81	8.90	8.94	8.95	8.99
Return on liquid assets <u>b/</u>	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85
Average cost of new borrowing <u>b/</u>	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average cost of outstanding debt	7.48	7.77	7.90	8.01	8.14	8.28	8.36	8.40

a/ Based on the projections shown in Annex Table 1 to "Future Role of the World Bank and its Associated Capital Requirements" (R77-18, dated January 31, 1977).

b/ Basic assumption for financial projections.

P & B
5/18/77

SOURCES OF FINANCE FOR WORLD BANK GROUP PROJECTS

Total project costs, and therefore sources of finance, cannot usefully be calculated for IBRD and IDA projects in such fields as: agricultural credit, technical assistance, development finance companies, program lending, and sector loans made in support of large ongoing public sector investment programs. The table therefore shows in lines 1 and 6 lending by IBRD (including Third Window in FY76) and IDA only for projects in other fields, where total project costs can be assessed. For these projects, lines 2 and 7 show cofinancing by other external sources of finance, lines 3 and 8 show the contribution made by the government or other domestic sources of finance, and lines 4 and 9 show total project costs. Lines 5 and 10 show, pro memoria, lending for the purposes listed above, which are not covered by lines 1 and 6. The same problem does not arise with IFC investments, where the size of the total project is always identifiable. Lines 11 to 14 show the composition of financing since FY73, when data on this were first compiled.

	<u>FY70</u>	<u>FY71</u>	<u>FY72</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>
	(\$ millions)						
<u>IBRD Lending</u>							
1. IBRD "Project" Loans	1014	1439	1245	1743	2538	2934	3661
2. Cofinancing	303	227	347	361	967	527	1348
3. Local Contribution	1065	1572	1582	2308	3133	4044	5035
4. Total Cost of Projects	<u>2382</u>	<u>3238</u>	<u>3174</u>	<u>4412</u>	<u>6638</u>	<u>7505</u>	<u>10044</u>
5. Other IBRD Loans	566	482	721	308	681	1336	1316
<u>IDA Lending</u>							
6. IDA "Project" Credits	368	343	668	859	701	1052	1055
7. Cofinancing	118	23	207	213	284	262	265
8. Local Contribution	381	199	497	867	705	1079	938
9. Total Cost of Projects	<u>867</u>	<u>565</u>	<u>1372</u>	<u>1939</u>	<u>1690</u>	<u>2393</u>	<u>2258</u>
10. Other IDA Credits	238	241	332	498	394	524	600
<u>IFC Investments</u>							
11. IFC Investments				147	203	212	245
12. Other External Finance				134	269	599	308
13. Local Contribution				200	303	595	859
14. Total Costs of Projects				<u>481</u>	<u>775</u>	<u>1406</u>	<u>1412</u>

Limits to Commercial Bank Participation in IBRD Projects

Commercial banks typically do not lend for maturities of more than 5 to 7 years. Thus, an upper limit for commercial bank participation in IBRD projects is set by the amount of repayments falling due within seven years from the date of commitment. As the table below shows, the maximum percentage of original amount which might be subject to participations is much greater under the present repayment terms than was the case prior to FY77; i.e. about 17% is repaid in the first seven years compared to 6% previously. In FY77, this theoretical limit to participations would be about \$970 million. Naturally, the amount of this lending which might be financially attractive to commercial banks is considerably less.

Cumulative Percentage of Original Amount Repaid

	"Typical" Terms Prior to FY77 /a	FY77 Terms /b
Year of Commitment	-	-
Year 2	-	-
Year 3	-	-
Year 4	-	0.2
Year 5	0.7	3.7
Year 6	2.8	10.0
Year 7	6.0	17.2
Year 8	9.5	24.4
Year 9	13.3	31.6
Year 10	17.5	38.8

-
- /a Prior to July 1, 1976, terms of IBRD lending varied by sector but were influenced to a small degree by country considerations. The weighted average for all sectors and countries over the FY71-76 period was a grace period of about 5 years and a final maturity of about 21 years. Repayment schedules on all loans were based on annuity-type amortization of principal.
- /b Present terms vary by GNP per capita of the borrowing country. The weighted average for all countries is a grace period of 3.8 years, and a final maturity of 18.0 years. All borrowers repay principal in equal semi-annual installments.

MAY 16 1977

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F11/4/14

1977 MAY 16

CIEC - FINAL SESSION - NO. 11

CIEC

1. RESULTS FOR THE BANK

THE FINAL MEETING OF THE CIEC COMMISSIONS WHICH HAD BEGUN ON APRIL 29, ENDED IN THE AFTERNOON OF SATURDAY, MAY 16, WITH LITTLE OVERALL PROGRESS ON THE MORE SUBSTANTIVE ISSUES, BUT WITH REMARKABLE RESULTS FOR THE BANK.

FIRST, THE CONTACT GROUP ON ODA, WHICH DISCUSSED INTER ALIA THE BANK'S CAPITAL REQUIREMENTS, WAS THE MOST SUCCESSFUL IN GETTING AGREEMENT ON THE TEXT OF DRAFT PROPOSALS. THE TEXT CONCERNING THE BANK NOW READS AS FOLLOWS: QUOTE PARTICIPANTS IN CIEC WELCOME THE AGREEMENT REACHED RECENTLY BY THE BOARD OF DIRECTORS OF THE BANK ON INDICATIVE PLANNING ASSUMPTIONS FOR AN INCREASED LENDING PROGRAMME OF DOLLARS 6.1 BILLION IN FY 1978 AND DOLLARS 6.8 BILLION IN FY 1979. THE CAPITAL BASE OF THE WORLD BANK SHOULD BE INCREASED SUFFICIENTLY TO PERMIT ITS LENDING TO RISE ADEQUATELY IN REAL TERMS IN THE YEARS AHEAD. NEGOTIATIONS FOR A GENERAL INCREASE IN THE CAPITAL OF THE BANK SHOULD BE UNDERTAKEN, AS SOON AS POSSIBLE, SO AS TO ALLOW THE BANK TO ACHIEVE ITS LENDING PROGRAMME OF DOLLARS 6.8 BILLION INFY 1979 AND THEREAFTER FURTHER INCREASES IN ITS LENDING IN REAL TERMS. THE THIRD WINDOW OF THE WORLD BANK SHOULD BE BROUGHT TO THE ORIGINAL TARGET OF DOLLARS 1 BILLION BY CONTRIBUTIONS FROM WHEREVER POSSIBLE. UNQUOTE. PLEASE NOTE THE ABSENCE OF SQUARE BRACKETS WHICH MAKES THIS AN AGREED TEXT AT COMMISSION LEVEL WITH LITTLE FORESEEABLE PROBLEMS AT THE FORTHCOMING SENIOR OFFICIALS AND MINISTERIAL MEETINGS.

SECOND, THERE IS GENERAL AGREEMENT ON AN EXPANDED BANK ROLE IN ENERGY LENDING, WITH A GROUP OF NON-OIL LDCS GOING AS FAR AS DEMANDING A YEARLY VOLUME OF 5 BILLION SDRS ENERGY LENDING BY THE BANK.

THIRD, THE G-8 WANT THE BANK TO SPONSOR A MECHANISM FOR CONTINUING ENERGY CONSULTATIONS DEALING WITH GLOBAL DEMAND AND SUPPLY ISSUES, ^{F-11/14} THOUGH OPEC MEMBERS HAVE NOT YET AGREED TO FUTURE ENERGY CONSULTATIONS.

IN SUM, THIS MEANS THAT CIEC WILL BE TURNING TO THE WORLD BANK FOR THE IMPLEMENTATION OF SOME OF ITS MAJOR POLICY PROPOSALS.

2. OVERALL SITUATION AND OUTLOOK

THE REPORTS OF THE INFORMAL CONTACT GROUPS WERE HEARD BY THE FULL COMMISSIONS, AND THEIR DRAFT PROPOSALS WERE ADOPTED. THEY WILL NOW BE COMPILED BY THE CO-CHAIRMEN AND SUBMITTED TO THE SENIOR OFFICIALS MEETING SCHEDULED FOR MAY 26/27. A FULL SET OF REPORTS AND PROPOSALS IS BEING HAND CARRIED TO YOU.

THE RESULTS REPORTED BY THE CONTACT GROUPS, WHICH HAD PUT IN LONG HOURS DURING THE LAST FEW DAYS, CAUSED DISSATISFACTION IN THE GROUP OF 19 DEVELOPING COUNTRIES. THE DRAFT PROPOSALS ARE STILL FULL OF SQUARE BRACKETS AND TWO-COLUMN PRESENTATIONS OF CONFLICTING POSITIONS. MANY IMPORTANT G-19 DEMANDS SUCH AS DEBT RELIEF, INDUSTRIALIZATION, AGRICULTURE AND FOOD AID, TRANSFER OF TECHNOLOGY, FOREIGN INVESTMENTS, INFLATION AND MOST RAW MATERIAL ISSUES INCLUDING ~~THE COMMON FUND WERE LEFT UNRESOLVED.~~ ✓

~~AT THE SAME TIME, SOME PROGRESS WAS ACHIEVED IN THE AREA OF ODA, COOPERATION AMONG LDCS, ACCESS TO CAPITAL MARKETS, ENERGY DEVELOPMENT IN LDCS AND SUCH UNCONTROVERSIAL ISSUES AS RESEARCH AND DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.~~

TO ALLEVIATE A CERTAIN FEELING OF FRUSTRATION, CO-CHAIRMAN EDMUND WELLENSTEIN OF THE EEC TOOK THE INITIATIVE TO DISCLOSE IN A QUOTE PERSONAL DECLARATION UNQUOTE TO THE JOINT FINANCE AND DEVELOPMENT COMMISSIONS, FOR WHICH HE SAID HE HAD NO MANDATE, THAT THE GROUP OF 8 INDUSTRIALIZED PARTICIPANTS WERE DISCUSSING AMONG THEMSELVES A SPECIAL ACTION OF ONE BILLION DOLLARS ODA. HE SAID HE UNDERSTOOD THAT THE G-8 WERE AGREED ON THE GENERAL OUTLINE OF THIS APPROACH, AND THAT A DECISION WOULD BE REACHED IN TIME TO CONTRIBUTE IN THIS WAY TO A BALANCED OUTCOME OF THE CIEC. BEFORE

MR WELLENSTEIN'S INTERVENTION, THE ONE BILLION DOLLAR PROPOSAL HAD NOT YET BEEN OFFICIALLY MENTIONED IN THE CIEC.

THEREAFTER, THE CONCLUDING REMARKS OF G-19 REPRESENTATIVES WERE NOTICEABLY MORE CONCILIATORY SEMI COLON WHILE STILL EXPRESSING DISAPPOINTMENT, THERE WAS APPRECIATION OF THE SERIOUS DRAFTING EFFORTS AS WELL AS REASONABLE HOPE FOR A POSITIVE OUTCOME OF THE FINAL PHASE OF CIEC. G-19 REPRESENTATIVES EMPHASIZED THAT IT WAS UNTHINKABLE FOR CIEC TO END WITH A ZERO RESULT, OTHERWISE THERE WOULD BE GRAVE CONSEQUENCES FOR THE WORLD ECONOMY. IT IS CLEAR THAT A SERIOUS BARGAINING EFFORT IS NOW REQUIRED BY THE SENIOR OFFICIALS AND BY THE MINISTERS, WHERE SOME CARDS WILL FINALLY HAVE TO BE PUT ON THE TABLE.

3. CONTACT GROUPS REPORTING TO COMMISSIONS

PRIMO ENERGY COMMISSION

THE COMMISSION RECEIVED A REPORT BY THE U.S. AND SAUDI CO-CHAIRMEN. THE REPORT PROPOSES THAT THE WORLD BANK IN CONJUNCTION WITH THE DEVELOPMENT COMMITTEE SOON EVALUATE HOW IT CAN EXPAND ITS ENERGY DEVELOPMENT ROLE, PARTICULARLY IN OIL-IMPORTING LDCS. THE BANK SHOULD AUGMENT (PUBLIC) CAPITAL AVAILABILITY TO LDCS, ACT AS A CATALYST FOR ADDITIONAL FLOWS FROM OTHER (PRIVATE) SOURCES, HELP TO IMPROVE THE INVESTMENT CLIMATE, AND THEREBY PROMOTE EXPLORATION.

MEMBER STATES SHOULD TAKE THE CAPITAL REQUIREMENTS OF ENERGY DEVELOPMENT INTO ACCOUNT WHEN DECIDING ON THE WORLD BANK'S CAPITAL INCREASE, BEARING IN MIND THAT ITS LENDING TO OTHER PRIORITY AREAS SHOULD NOT BE PREJUDICED BY A NEW LARGE ENERGY PROGRAM.

JAMAICA, INDIA, BRAZIL, CAMEROON AND ZAIRE SUBMITTED A MORE AMBITIOUS PROPOSAL FOR THE BANK, CALLING FOR A BANK ENERGY PROGRAM OF NOT LESS THAN 5 BILLION SDRS PER ANNUM OVER 1980-85, WITHOUT AFFECTING NORMAL REAL GROWTH IN LENDING FOR OTHER PURPOSES. INDUSTRIALIZED STATES SHOULD ALSO CONTRIBUTE 300 MILLION SDRS PER ANNUM DURING THE NEXT THREE YEARS TO AN APPROPRIATE INSTITUTION FOR ENERGY EXPLORATION IN LDCS.

THE SAME NATIONS ALSO PROPOSED THAT THE IMF PROVIDE FOR FIVE YEARS STARTING IN 1977 A SPECIAL CREDIT FACILITY TO ASSIST ENERGY IMPORTING LDGS AT AN AMOUNT OF 4 BILLION SDRS ANNUALLY ON CONDITIONS SIMILAR TO THE OIL FACILITY. JAMAICA ADDED THAT THE IMF SUPPLEMENTARY CREDIT FACILITY SHOULD RESEMBLE A LIBERALIZED OIL FACILITY. THE IMF INTEREST SUBSIDY ACCOUNT SHOULD BE EXPANDED.

IN GENERAL, THE ATMOSPHERE IN THE ENERGY COMMISSION WAS VERY GOOD. PROGRESS HAD BEEN MADE ON SECONDARY ISSUES. HOWEVER, CRUCIAL PROBLEMS SUCH AS PRICES AND FUTURE IMPORTER-EXPORTER CONSULTATIONS (WITH A POSSIBLE ROLE FOR THE BANK) WERE LEFT TO THE SENIOR OFFICIALS AND MINISTERS. AGREEMENTS REACHED SO FAR ARE AD REFERENDUM AND CONDITIONAL UPON SATISFACTORY RESOLUTION OF THESE REMAINING ISSUES. BOTH G-8 AND G-19 STRESSED THE LINK BETWEEN THE OIL PRICE AND CONSULTATION ISSUES AND FUTURE PROGRESS IN OTHER COMMISSIONS.

SECUNDO RAW MATERIALS COMMISSION

THE REPORTS OF FOUR CONTACT GROUP REVEAL SIMILAR DISAGREEMENTS AS THOSE WHICH PREVAILED IN NOVEMBER 1976. U.S. HAS NOT AGREED TO THE EEC POSITION ON A COMMON FUND AND SEEMS TO BE HOLDING BACK ITS APPROVAL FOR LAST MINUTE BARGAINING. AGREEMENT HAS BEEN REACHED ON INVITING THE DEVELOPMENT COMMITTEE TO STUDY A WORLD-WIDE STABEX, THOUGH THERE ARE DIFFERENCES ON THE TERMS OF REFERENCE. G-19 WANT A FAR-GOING LIBERALIZATION OF THE IMF COMPENSATORY FACILITY TO WHICH A STABEX TYPE SCHEME SHOULD BE ADDITIONAL. THE STUDY SHOULD BE DONE IN ASSOCIATION WITH UNCTAD AND BE FINISHED BY APRIL 1978 ACCORDING TO G-19. G-8 OBJECT THAT THESE AND OTHER G-19 CONDITIONS PREJUDICE THE OUTCOME.

MANY OTHER DISPUTED ISSUES OF LOWER PRIORITY MAY HAVE TO BE DROPPED TO ENABLE THE SENIOR OFFICIALS TO FOCUS ON IMPORTANT DISAGREEMENTS. OF ALL FOUR COMMISSIONS, THE ONE ON RAW MATERIALS HAS MADE THE LEAST PROGRESS.

TERTIO FINANCE AND DEVELOPMENT COMMISSIONS

AAA. THE CONTACT GROUP ON INFLATION REPORTED AGREEMENT ONLY ON THE PERNICIOUS EFFECTS OF INFLATION, BUT CONFLICTING POSITIONS ON THE CAUSES OF INFLATION AND ON ANTI-INFLATIONARY MEASURES.

BBB. THE CONTACT GROUP ON COOPERATION AMONG LDCS SAID THAT THERE WAS MUCH COMMON GROUND, BUT CONFLICTS REMAIN AS TO WHERE THE MAJOR SUPPORT FOR LDC COOPERATION SHOULD COME FROM. A LARGE ROLE IN FINANCING REGIONAL SCHEMES WOULD BE ASSIGNED TO MULTILATERAL INSTITUTIONS.

CCC. THE CONTACT GROUP ON FINANCIAL ASSETS OF OIL EXPORTING LDCS REPORTED A COMPLETE FAILURE TO ACHIEVE AGREEMENT, WITH THE G-8 STILL REFUSING TO PROVIDE ANY SPECIAL PROTECTION FOR THE REAL VALUE OF SUCH ASSETS. THE REPORT CONSISTS OF A STRAIGHTFORWARD TWO-COLUMN PRESENTATION WITH NOT A SINGLE AGREED POINT. THE SAUDI DELEGATE SAID THAT IF THERE WAS NO PROTECTION, OIL PRODUCERS COULD TAKE MEASURES TO REDUCE THE FUTURE ACCUMULATION OF THEIR ASSETS, I.E. TO CURTAIL OIL PRODUCTION.

CCC. THE CONTACT GROUP ON FOREIGN DIRECT INVESTMENT, ACCESS TO CAPITAL MARKETS AND OTHER FINANCIAL FLOWS REPORTED UNRESOLVED DIFFICULTIES REGARDING RULES FOR FOREIGN INVESTMENTS, IN PARTICULAR WHERE THEY TOUCH UPON NATIONAL SOVEREIGNTY. THERE WAS PROGRESS IN THE ACCESS TO CAPITAL MARKETS ISSUE, ALSO BASED ON THE WORK OF THE DEVELOPMENT COMMITTEE. AS TO THE OTHER FLOWS, THE G-19 TOOK A STRONG STAND IN FAVOR OF QUICK IMPLEMENTATION OF THE SUPPLEMENTARY IMF FACILITY.

DDD. THE CONTACT GROUP ON LDC INDEBTEDNESS REPORTED A TOTAL FAILURE. THEIR TEXT CONSISTS OF A REPETITION OF LAST YEAR'S STATEMENTS BY THE G-19, THE U.S. AND THE EEC, AND SWEDEN.

EEE. THE CONTACT GROUP ON ODA SAID THEIR PROGRESS ON ALL SUBJECTS WAS SIGNIFICANT, PARTICULARLY ON THE ROLE OF MULTILATERAL FINANCIAL INSTITUTIONS. THE G-19 STILL HAD SOME COMPLAINTS AT G-8 HESITATIONS TO ADOPT CLEAR GUIDELINES ON HOW TO ATTAIN THE 0.7 PERCENT ODA TARGET.

FFF. THE CONTACT GROUP ON AGRICULTURE, FOOD AND INFRASTRUCTURE PRODUCED NO AGREEMENT ON FOOD PRODUCTION AND FOOD SECURITY, ALTHOUGH THERE WAS PROGRESS IN THE AREA OF AID FOR AGRICULTURAL INPUTS, PARTICULARLY SEEDS AND PESTICIDES. FOR INFRASTRUCTURE, ATTITUDES WERE GENERALLY OPTIMISTIC, ALTHOUGH THE AFRICANS WERE DISAPPOINTED FOR THE "DECADE FOR AFRICAN TRANSPORTATION AND TELECOMMUNICATION" WAS NOT ADOPTED.

GGG. THE CONTACT GROUP ON INDUSTRIALIZATION AND TRANSFER OF TECHNOLOGY ISSUED A DISAPPOINTING REPORT WITH NO PROGRESS IN MAJOR OBJECTIVES SUCH AS THE INDUSTRIALIZATION GOAL, THE ROLE OF UNIDO, CONSULTATIONS, MARKET ACCESS, APPROACH TO CAPACITIES AND STRUCTURAL MEASURES. THERE WERE LIMITED RESULTS IN THE AREAS OF TECHNICAL ASSISTANCE AND THE INDUSTRIAL DEVELOPMENT FUND. COMPLAINTS ABOUT THE OBSTRUCTIVE TACTICS OF "ONE G-8 DELEGATION" WERE HEARD (MEANING THE U.S.) BUT THE G-8 SAID THAT AGREEMENT WAS WITHIN REACH FOR MOST UNRESOLVED ISSUES.

HHH. THE CONTACT GROUP ON TRADE REPORTED THE ELIMINATION OF SOME CONFLICTS, PARTICULARLY IN THE AREA OF THE MULTILATERAL TRADE NEGOTIATIONS AND OF THE MULTI-FIBER AGREEMENT, BUT THE G-19 DEPLORED THE ABSENCE OF PROGRESS ON THE GENERAL SYSTEM OF PREFERENCES AND ON TROPICAL PRODUCTS.

END OF CIEC NO. 11

A WORD OF THANKS AND APPRECIATION FOR THE VALUABLE CONTRIBUTION FROM JORIS VOORHOEVE DURING THE LAST DAYS OF THIS PHASE OF CIEC.

REGARDS

KOELLE

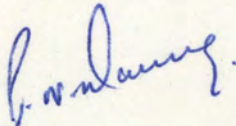
EG

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

May 10, 1977

Mr. McNamara:

Only a minor suggestion: could the beginning of paragraph 3 read "In view of these developments I believe the Executive Directors would now wish to consider...." ?



P. N. Damry

THE WORLD BANK

7/13 Office of the President

Reynolds - Treasury (but not State) wants
to defer start of life line
dis. to Aug or early Sept. -
but agrees to move to main
issues & not waste time
on peripheral matters
I replied: could start on nothing
& rep in July & move to cap line
anterior early Aug. (8/5)

THE WORLD BANK

Office of the President

Drake 5/13/77

"A formidable but very exciting approach" -
Keep in mind in talking to ED's that
this is not a Summit decision -
Agrees and possible to have V Bds with joint
responsibility -

Re Capital -

Welcomes an initiative to get subject off
dead center -

The whole problem has changed since
the Summit - 7 shareholders support;
∴ let's get to the central pts of the
essentials - let's not further away
out hand - get to the heart of the matter -
Voting - a problem, but start dis-
cussion early -

Likes the schedule -

Send out to Bd sooner rather than later -
Hold city before ED's leave on travel -

quest: Rupp } 7/11/4/12
Dangin } A10
Wood }
Lyalls }
May 10, 1977
Duke 5/13

At their meeting on March 8th the Executive Directors of the Bank agreed that June 1978 would be appropriate as a final target date for completing discussions on the future role of the Bank and its associated capital requirements. It was recognized that these discussions would need to begin promptly and to be pursued vigorously in order to reach agreement on, or if possible even before, June 1978. There were differences of opinion on how and, more particularly, when to arrange these discussions, though there seemed to be general agreement on the desirability of completing at least one round of discussions before the Annual Meeting.

In the past few days there have been several important meetings at which the subject of the Bank's capital requirements has been discussed. Representatives of the developing countries, meeting as the Group of 24 prior to the Development Committee session on April 27th, issued a statement in which they urged that "the capital of the World Bank and the regional development finance institutions should have a sizable increase". The heads of state of seven major developed countries and the President of the European Community also addressed the Bank's capital requirements in the communique issued at the conclusion of their meeting in London on May 8th. They expressed support for the World Bank and stated that its general resources "should be increased sufficiently to permit its lending to rise in real terms".

In view of these developments it would seem desirable for the Executive Directors to consider at an early date the specific features of

a capital increase for the Bank which would be adequate to support the lending objectives endorsed by both its developing and developed member countries. Particular attention might be paid to the terms, conditions and timing of a General Capital Increase as set out in Sections 6 and 7 of the January 31st memorandum on the "Future Role of the World Bank". The timing of these discussions can be flexible, to suit the convenience of the Directors. One set of dates which could be considered would be to begin on July 7th with a discussion of the frequency of future capital increases for the IBRD and of the interpretation to be given to the notion of "non-disruptive adjustment" in planning for future capital increases. Consideration of the topics raised in Section 6, leading to a tentative conclusion regarding the amount of the increase, would then continue on July 12th with a discussion of the planning assumptions to be used with respect to inflation and the repayment terms for future IBRD loans. On July 14th, the issue of voting rights and Board representation for the developing countries could then be taken up. It would be understood that discussions on each of these topics would continue until the views of all member countries had been fully stated and explored. Discussions of other relevant issues raised in the "Future Role of the World Bank" paper could commence immediately after the Annual Meeting against the background of what would then hopefully be an emerging consensus on the terms, conditions and timing of a specific capital increase for the IBRD.

LA 740602 5/13
for Tues 3/17 3 PM

May 13, 1977

7/11/4/13

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7/11/4/11

OFFICE MEMORANDUM

TO: Files

FROM: David Bock, P & B

SUBJECT: US Treasury Requests for Financial Projections

DATE: May 5, 1977

1. On April 28th, Joe Wood and I met with Hal Reynolds and two representatives of the U.S. Treasury: Dick Erederrick and Bill Thomson. Peggy Gonzales was also present. The purpose of the meeting was to discuss the Treasury's request for information about IBRD finances. We had previously responded in part to the Treasury's requests (see Joe Wood's memorandum to files of April 27) and gave them two additional pieces of information at the meeting. These were: (a) a table showing IBRD financial indicators under various assumptions as requested in Mr. Thomson's memorandum of April 20th (copies attached); and (b) a graph of some of the information we had previously provided (copy attached).
2. The meeting was mainly taken up with a discussion of some of the technical details of the Bank's finances. Neither Mr. Frederick nor Mr. Thomson seemed terribly familiar with the financial policies and structure of the Bank. They indicated that they were attempting to put the basic analyses and information in place in preparation for negotiations on the General Capital Increase. Mr. Frederick also stated that the overall study of the U.S. relationships to the IFIs would be carried out by a separate group in the Treasury.
3. We also went over the remaining items of information that had been requested. Most of these are nearly complete and will be sent to Mr. Reynolds in the next few days. These include:
 - a. Breakdown of lending between poorest and middle-income countries.
 - b. Cash flow effects of shorter maturities for middle-income countries.
 - c. Average and marginal interest rates on loans, borrowings, equity and liquid holdings.
 - d. Historical information on cofinancing.
4. The Treasury staff agreed not to press for a breakdown of IBRD borrowings by market and maturity from 1980 to 1995. We also persuaded them that it was impossible for us to estimate the potential for commercial bank cofinancing.
5. With regard to potential IBRD financing of energy and mineral development, we told them that this would be provided in the so-called "Goodman Paper" on the International Resources Bank.

Attachments

cc: Messrs. McNamara, Knapp
Cargill/Goodman, Stern, Gabriel, Adler, Wood

UNITED STATES GOVERNMENT

Memorandum

Department of the Treasury
Washington, D.C. 20220

1 - Alt. Executive Director
2 - Permanent Office Copy

DATE: April 20, 1977
4/21/77

TO : Mr. Hal Reynolds,
Richard Frederick

FROM : William Thomson *WST*

SUBJECT: Information Required from World Bank for Capital Increase Study

In order to follow-up the previous request to the World Bank it is now appropriate to consider some individual cases in more depth. However, before pursuing these requests we would like results similar to those contained in Mr. Wood's memorandum of April 12, 1977 for a \$40 billion capital increase.

This information will allow us to define the outer-boundaries of how long the capital increase will last, until the Article III constraint is met.

Financial indicator projections

The Bank's financial indicators over time are now sought including:

1. IBRD: Net Income, Reserves, Reserves/Disbursed Loans, Usable Equity, Usable Equity/Disbursed Loans, Interest-Coverage Ratio.
2. IBRD: Lending rate, Average interest rate on disbursed loans, average total cost of funded debt, average cost of new borrowings, average return on investment.

The information is required for the following representative capital increases, using the basic 5% real growth in lending.

1. \$10 billion with 10% paid-in capital
2. \$30 billion with 10% paid-in capital
3. \$30 billion with 0% paid-in capital
4. \$40 billion with 0% paid-in capital



5010-108

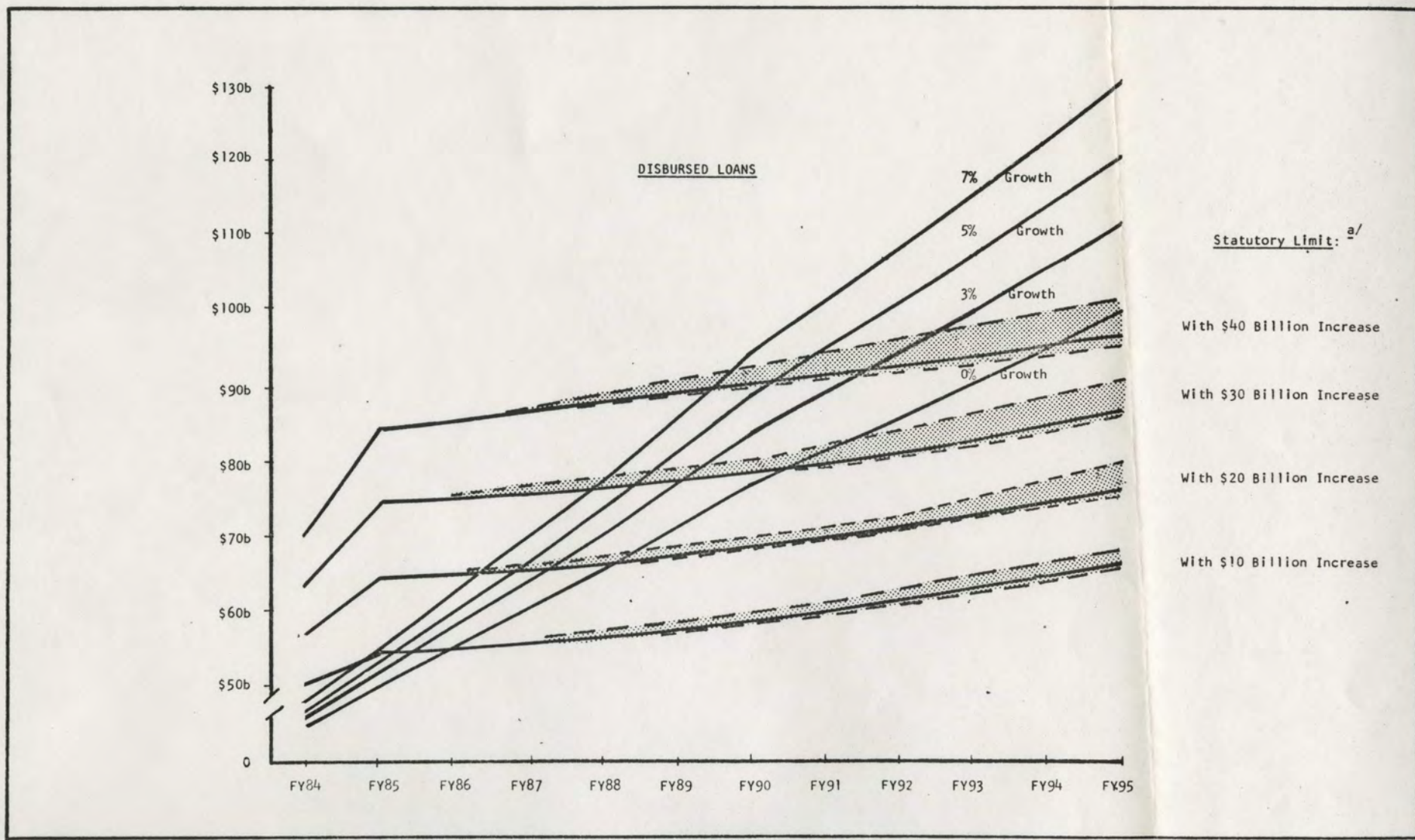
Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan



Financial Indicator Projections
(millions and %)

	<u>FY80</u>	<u>FY81</u>	<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>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
<u>Basic Assumptions</u>																
Lending Rate	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
Cost of New Borrowing	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Return on Investments	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.35	7.85	7.85
Avg. Interest Rate on Disb. Loans	7.66	7.90	8.14	8.40	8.55	8.60	8.73	8.78	8.85	8.88	8.93	8.95	8.99	9.00	9.00	9.00
Avg. Cost of Funded Debt	7.90	8.01	8.14	8.28	8.36	8.40	8.42	8.45	8.45	8.46	8.47	8.49	8.49	8.50	8.50	8.50
<u>Alternative Capital Increases</u>																
A. \$10 billion, 10% paid-in																
Net Income	371	418	462	527	582	673	757	826	931	1016	1134	1226	1350	1505	1649	1801
Reserves	2842	3159	3522	3949	4431	5004	5661	6387	7218	8134	9168	10294	11544	12949	14498	16199
Usable Equity	6196	6513	6875	7536	8251	9058	9715	10441	11272	12188	13222	14348	15598	17013	18552	20253
Interest Coverage Ratio	1.18	1.17	1.16	1.16	1.15	1.15	1.15	1.14	1.14	1.14	1.14	1.13	1.13	1.13	1.12	1.12
Reserves/Disb. Loans	10.8	10.3	9.9	9.7	9.5	9.4	9.3	9.4	9.4	9.5	9.5	9.6	9.6	9.6	9.5	9.5
Usable Equity/Disb. Loans	23.6	21.2	19.4	18.5	17.7	17.0	16.0	15.3	14.7	14.2	13.7	13.3	12.9	12.5	12.2	11.9
B. \$30 billion, 10% paid-in																
Net Income	371	418	462	548	646	783	898	937	1098	1198	1332	1442	1585	1760	1927	2104
Reserves	2842	3159	3521	3969	4516	5199	5997	6877	7874	8972	10204	11546	13031	14691	16518	18522
Usable Equity	6196	6513	6875	8023	9270	10653	11451	12331	13328	14426	15658	17000	18485	20145	21972	23976
Interest Coverage Ratio	1.18	1.17	1.16	1.16	1.17	1.18	1.18	1.18	1.17	1.17	1.17	1.16	1.15	1.15	1.15	1.14
Reserves/Disb. Loans	10.8	10.3	9.9	9.8	9.7	9.7	9.8	10.1	10.3	10.4	10.6	10.7	10.8	10.8	10.9	10.9
Usable Equity/Disb. Loans	23.6	21.2	19.4	19.7	19.9	20.0	18.9	18.1	17.4	16.8	16.3	15.8	15.3	14.9	14.5	14.1
C. \$30-40 billion, 0% paid-in																
Net Income	371	418	462	517	550	617	687	750	848	925	1035	1118	1232	1377	1510	1649
Reserves	2842	3159	3521	3939	4389	4907	5493	6143	6890	7716	8651	9669	10801	12078	13488	15037
Usable Equity	6196	6513	6875	7293	7743	8261	8847	9497	10244	11070	12005	13023	14155	15432	16842	18391
Interest Coverage Ratio	1.18	1.17	1.16	1.15	1.14	1.14	1.13	1.13	1.13	1.13	1.12	1.12	1.12	1.12	1.11	1.11
Reserves/Disb. Loans	10.8	10.3	9.9	9.7	9.4	9.2	9.1	9.0	9.0	9.0	9.0	9.0	8.9	8.9	8.8	8.8
Usable Equity/Disb. Loans	23.6	21.2	19.4	17.9	16.5	15.5	14.6	13.9	13.4	12.9	12.5	12.1	11.7	11.4	11.0	10.7

RELATIONSHIP OF DISBURSED LOANS AND
 STATUTORY LIMIT UNDER ALTERNATIVE ASSUMPTIONS: FY84-95



a/ The solid line represents the statutory limit for each subscribed capital increase assuming a 5% real growth in lending and that 0% of the increase is paid-in. The upper boundary in each case assumes 10% of the increase is paid-in, about 70% of which is usable for lending by the Bank. The lower boundary assumes 0% paid-in and 3% real growth in lending.