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**The Woodrow Wilson**  
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# Record Removal Notice

<b>File Title</b> James D. Wolfensohn - Chronological File - January 1997 through November 1997		<b>Barcode No.</b>  30314534		
<b>Document Date</b> June 4 - November 14, 1997	<b>Document Type</b> Correspondence			
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<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 18, 2017			

# OFFICE MEMORANDUM

DATE: May 23, 1997

TO: Gautam Kaji, Managing Director, EXC

FROM: Callisto Madavo, Vice President, AFR

EXTENSION: 8-2856

SUBJECT: **Rwanda**

*Callisto Madavo*  
*Sum: your info*  
*[Signature]*

1. As you know, I visited Rwanda from May 16-20. During my visit, I was able to make a number of field trips and see first hand the way that the country has recovered from the violence of 1994-- as well as the work ahead. Economic recovery has started in 1996, with robust growth and low inflation. But, as the authorities themselves have pointed out, the recovery is fragile. There are still a number of major challenges: remaining insecurity in about one-third of the country, reintegration of hundreds of thousands of refugees that have returned, the need to establish an investment climate favorable to the private sector, and a regional climate that, while improving, is still uncertain.

2. I was very impressed by the quality of the Government team that I met. The leadership is very outward looking. There is a general consensus among the leadership that the way forward in Rwanda is to accelerate growth through private sector led development, to invest heavily in human resources, and to take advantage of emerging opportunities for regional integration. The development constraints that the country faces, combined with the rupture of the social fabric, make this an exceptionally difficult challenge. With strong and committed leadership and the exceptional support of the donor community, much can be achieved. This will require a major effort on our part. It will also carry higher risks for us, given the difficulty of the issues.

3. Rwanda will face significant budgetary deficits in the medium term, given the relatively low level of economic production, and the heavy debt service burden. with outstanding debt of about US\$1.2 billion, of which about half is to IDA, it will not be possible for Rwanda to meet its development financing needs without some special support from donors. I have suggested that the Bank assist the country in arranging a Trust Fund that could finance debt service obligations while the country undertakes an economic program that would eventually make it eligible for the HIPC initiative.

4. I also discussed with donors a number of concerns that they have for the country. This includes the treatment of close to 100,000 prisoners who are awaiting trial

for allegedly participating in the genocide, recent decisions to develop villages (a departure from the traditional settlement pattern on hillsides), and confused messages about the Government's plans for reintegration and reconciliation. These are important concerns, and I have encouraged the authorities to enter into a more comprehensive dialogue with the donors in order to clarify issues. I believe that exceptional donor support of the kind that will be needed in Rwanda will require that the Government be responsive to these issues. There will be a need for effective donor coordination, which is not now in place. I expect that the Bank will begin to play a leading role in donor coordination as the economic program becomes more clear.

5. Finally, I summarized for senior officials the findings of the working group on the Galand report and inquired as to the Government's own view of the Galand report. The Government indicated that while they were aware of the work that Galand had been doing, they had not taken a position on the findings and that he had not been given a mandate by them. I believe they will not pursue the recommendations of the Galand report and that there is little prospect it will develop into a major issue in our relationship or with the media.

6. Our next step will be to brief the donors at the SPA meeting on the situation in Rwanda, and on the need for exceptional efforts to assist them in this difficult-- and risky-- transition period.

cc: Sarbib, Patel, Cleaver, Tcheyan, R. Venkateswaran (AFR), Donovan (FRM)  
Rwanda CT

L - I N - 1 N O T E

*A. Wafar*

DATE: 5/22/97

TO: Gautam S. Kaji

( GAUTAM KAJI )

FROM: Mieko Nishimizu, SASVP

( MIEKO NISHIMIZU )

*Jun :  
for you  
info*

EXT.: 80600

SUBJECT: BANGLADESH CYCLONE - FYI

Gautam,

As the attached indicates, we are indeed impressed by the outstanding disaster preparedness demonstrated by the Government of Bangladesh.

IDA can be proud of the fact that we helped establish systems and institutions to manage natural disasters, and financed cyclone shelters that "saved thousands of lives" according to BBC News.

But, in an emergency like this, such infrastructure cannot give the fullest potential without a strong political leadership. I believe my favorite Prime Minister showed the "stuff" she's made of. By all accounts, her performance as the "commander-in-chief" was extraordinary, and made a major difference. (No wonder, Hasina and Chandrika are good friends!)

Just in case someone asks you what we are doing about it, here is the current list of reconstruction needs we have identified for quick-response financing through on-going projects:

- o repairs of damaged coastal embankments (via Coastal Embankment Project, although we may have to request an increase in the credit amount);
- o repairs to damaged power lines (via the Sixteen Towns Power Project); and
- o provision of low-income housing (via the Urban Development Project).

*Mieko*

MIEKO NISHIMIZU  
Vice President  
South Asia Region

May 22, 1997

The Honorable Sheikh Hasina  
Prime Minister  
People's Republic of Bangladesh  
Dhaka  
Bangladesh

Dear Prime Minister,

I have been most concerned about the news of the cyclone that hit the Chittagong area on Monday and would like to share in the grief of those affected who have lost their dear ones, their shelter, or their livelihood. Having grown up in the land of "typhoons", I appreciate the awesome power of nature and sense the anguish and anger of the affected people that are made worse by not knowing where to direct such feelings.

It will undoubtedly take some time before accurate information becomes available on the damage done by this cyclone. Based on the reports I have seen so far, however, I would like to commend your personal leadership in the Government's disaster preparedness and the effective relocation efforts that undoubtedly saved countless lives.

The World Bank has been monitoring the situation closely on the ground throughout this week, together with various international aid and relief agencies. We stand ready to provide rapid assistance for reconstruction, should such needs arise.

With my highest respect, as always.

Very sincerely yours.



Mieko Nishimizu

B-258<sup>P.2</sup>/2/3

Opening Statement by the Hon'ble Foreign Minister for Briefing Ambassadors/High Commissioners on the Recent Cyclone in Bangladesh

*Excellencies,*

Let me, first, express my sincere thanks to all of you for your presence here this afternoon. My purpose of meeting with you here is to brief you on the devastating cyclone that hit Bangladesh early this week and the measures taken by the Government under the direct supervision of Prime Minister Sheikh Hasina to, first, take all the possible preparations before the cyclone hit land, and second, to assess the damages and manage the aftermath of this grave natural disaster.

*Excellencies,*

The press and media have accurately reflected the facts of the cyclone. Early indications from our weather bureau was that the cyclone would be a fierce and a devastating one. It was initially also expected to hit at night. In the end, the cyclone came delayed, hitting most areas in the south and south east Bangladesh with Cox's Bazaar as the epicenter around mid-day. It was a ferocious one but I am happy to report here that the early and timely preparations of the Government led by the Prime Minister herself and the fact that the cyclone came in low tide and as I have said at mid-day were the lucky factors that resulted in minimizing the loss of life.

The cyclone hit the districts of Cox's Bazar, Chittagong, Bhola, Barisal and the off shore islands. Some figures will reflect the impact of the cyclone. As of 1800 hours on 21 May 1997: people affected stood at 20,42,738, death toll 95, although a large number of fishermen who were at sea have been reported missing; injured 7,344, house damaged 5,12,593, cattlehead lost, 1,899, crops damaged 29,951 hectares, educational institution damaged 608, embankment road damaged 152 km. It may interest you that in the area where the cyclone hit, there are 718 cyclone shelters and full use was made of them.

Prime Minister Sheikh Hasina took charge the moment it was reported to her that the early indications were that the cyclone could be one of extreme intensity probably more severe than that of 1991 which killed 140,00 people approximately. She thereafter coordinated the work of all the agencies concerned in Dhaka and established, in most cases herself, direct link with district and thana administration in the probable districts/thanas where the cyclone was supposed to hit. Her personal direction gave sense and purpose to disaster-preparedness at the local level administration where all concerned did an admirable job of evacuation. It was also one primary reason why so few lives were lost and a disaster of gigantic proportions was avoided in terms of loss of lives.

The Prime Minister cancelled her Spain visit to be with her people to see the crisis through. In the aftermath of the cyclone, she has visited the most seriously affected areas in order to ensure that relief work is being properly carried out. All relevant agencies have been given directives whose implementation is also being personally ensured by her so that immediate solace may be given to the people who have suffered the consequences of the cyclone. We are confident that we will be able to meet the post-relief operations from our own resources for which we have made all preparations before-hand. I have personally taken some of Your Excellencies to the disaster areas yesterday to Kutubdia, Maheshkhali and Cox's Bazar. So some of you have already seen first hand the effects of this disaster. In case some more Heads of Mission would like to visit the affected areas, we would be happy to make suitable arrangements for such a visit. The Foreign Ministry was also in constant touch with its Missions abroad and Embassies in Dhaka to keep our friends informed of the developments concerning the cyclone.

*Excellencies,*



B-258<sup>P.3</sup>/3/3

We have received inquiries from some of you about relief from your Governments. We humbly thank you for your gestures. We would however like to inform you that we have the means available to meet the requirements of immediate relief from our own resources. Your support and offer nevertheless encourages us and gives us the heart to meet such calamities with resilience. We are also grateful to many of Your Heads of State/Government who have addressed personal messages of sympathy to Prime Minister Sheikh Hasina. I would like to mention here that our policy regarding relief notwithstanding, we would welcome any offer made by any country voluntarily. For such acts of friendship, we would request those who come with offers to get in touch with the Ministry of Relief for further action. To give you an idea of what we would require in the short term and long term, let me provide you with a list.

We require in the short term:

- 1) Building materials; particularly tents, CI sheets, etc
- 2) Food stuff particularly high protein biscuits;
- 3) Water purification tablets and water purification plants;

And in the long term,

- 1) Repair of roads and embankments; and
- 2) Fund for building more cyclone shelters which could also during normal times function as school buildings.
- 3) Expand existing afforestation program in the coastal areas and in the off-shore islands
- 4) Raising of ground and construction of village homes which would be relatively more secure from damage than the present ones.

Excellencies,

With these words and with my sincere thanks to all of you again, I would now open the floor for any questions that you may have.

Caio JDW Chion



# THE WORLD BANK GROUP

ROUTING SLIP		DATE: May 16, 1997	
<b>OFFICE OF THE MANAGING DIRECTOR OPERATIONS</b>			
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James D. Wolfensohn, EXC		MC11-123	
Mr. Caio Koch-Weser, MDOMD		D10-093	
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	For Signature	<input type="checkbox"/>	For Review
<input type="checkbox"/>	For Discussion	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	Information	<input type="checkbox"/>	Recommendations
<b>RE: Letter to The Hon. Sartaj Aziz, Minister of Finance, PAKISTAN from Mieko Nishimizu</b>			
<b>REMARKS:</b>			
Jim/Caio:			
For your information.			
Attachment:			
<b>FROM:</b> Gautam S. Kaji, MDOMD		<b>EXTENSION:</b> 81384	

Recd. 5/13/97  
D Log  
D Ak

The World Bank  
Washington, D.C. 20433  
U.S.A.

MIEKO NISHIMIZU  
Vice President  
South Asia Region

The Hon. Sartaj Aziz  
Minister of Finance  
Government of Pakistan  
Islamabad  
Pakistan

May 12, 1997

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MAY 17 2017  
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*Mr. Wolfensohn  
Mr. Khusro  
for your info*  
*[Signature]*  
5/14

Dear Minister,

I trust this letter finds you in your usual high spirit and good health. in spite of what must be a hectic schedule. Since our last meeting, I have been following even more closely than before the financial and economic developments of your country. I am afraid that news from Pakistan continues to disturb me deeply -- so deeply that I must take up my pen to write this letter to you.

As indicated by Mr. Wolfensohn as well during your recent meeting with him here. my focus on macroeconomic stabilization has singularly to do with the importance of your government's structural reform program for the future growth and prosperity of your nation. I believe that the bold and comprehensive reform program is now threatened by two major challenges: the macroeconomic situation that is deteriorating faster than expected; and rising political pressure from various quarters for an expansionary policy stance or more concessions and exemptions that would dilute the reform's benefits.

I see major short-term macroeconomic and financial risks facing Pakistan that require your immediate attention. Both the fiscal and current account deficits are now clearly running at unsustainable levels -- with the budget deficit in excess of 6% of GDP and the current account deficit about 7% of GDP. Moreover, recent import tariff and tax rate reductions, though welcome from a longer-term perspective, are already exacerbating imbalances, requiring as expected compensatory fiscal and exchange rate measures urgently.

Continuing large fiscal deficit and weak export performance have seriously undermined Pakistan's balance of payments position and eroded its creditworthiness. Your country has already become excessively dependent on short-term borrowing. Some commercial banks are now experiencing liquidity problems. Official foreign exchange reserves continue to be dangerously low, and the balance of payments situation remains highly vulnerable to sudden outflows of short-term capital. The domestic banking system, with its large stock of bad loans and dependence on foreign currency deposits, is increasingly fragile -- a balance of payments crisis will inflict a serious damage to the banking system, and bring down the whole economy along with it.

*exchange rate adjustment*

In order to protect Pakistan's structural reforms, it is imperative that the government takes immediate policy measures that would tighten the fiscal and monetary policies and increase competitiveness of exports. These actions need to be followed by an exceptionally strong budget in FY98 that would lead credibly to a major reduction in the fiscal deficit. In the absence of these policies, I predict a large gap to emerge in the financing of the balance of payments over the coming months.

I urge you to build upon your courageous initiatives to help sustain the momentum for transforming Pakistan's economic structure to induce a much faster pace of growth in output and employment. A strong budget and timely ESAF agreement will pave the way for a large multilateral and bilateral assistance in support of your reform efforts at this critical juncture in the nation's history. In the event, as indicated to you by Mr. Wolfensohn in Washington, the Bank stands ready to provide a sizable financial assistance for reform programmes in critical areas such as the banking system.

Minister, as I expressed in my recent letter to you, I wish to once again reiterate my confidence in you and your capable team in meeting the formidable challenges faced by your country today, and making the Prime Minister's vision a reality on the ground. It is in this spirit that I have taken the liberty of sharing my deeply held concerns in a straightforward and frank manner, for which I must apologize.

With my highest respect as always.

Very sincerely yours.



Mieko Nishimizu  
Vice President  
South Asia Region

cc: The Hon. Hafeez Pasha, Deputy Chairman, Planning  
Governor Muhammad Yaqub, State Bank of Pakistan

CL/200

The World Bank  
Washington, D.C. 20433  
U.S.A.

GAUTAM S. KAJI  
Managing Director  
Operations

May 15, 1997

James D. Wolfensohn:

**Chad/Cameroon Petroleum Development and Pipeline Project:  
Status Report**

Jim:

Not surprisingly, this Status Report is on the optimistic side as staff are working hard to get the project done. There are still serious questions to be resolved with the Environmental Assessment and providing enough assistance and institution building to the Governments so they can handle the windfall. We must be mindful that the project is attracting a great deal of attention from the NGOs, who will subject the Bank's adherence to environmental and other policies to great scrutiny. I will be monitoring this project closely, and we all need to be careful to hold the private operators and Governments to high standards. We cannot afford another blow-up, and need to use what leverage we have upfront.



Attachment

# OFFICE MEMORANDUM

DATE: May 12, 1997

TO: Mr. James D. Wolfensohn

THROUGH: Messrs. Gautam Kaji and Richard Frank, Managing Directors  
Mr. Jannik Lindbaek, Executive Vice President

FROM: Jean-Louis Sarbib, RVP Africa, and Jemal-ud-din Kassum, VP Investment Operations

EXTENSION: 34946 and 37723

SUBJECT: **Chad/Cameroon Petroleum Development and Pipeline Project: Status Report**

We have been working closely over the last several years with a consortium of oil companies, led by Exxon, and the governments of Chad and Cameroon on a project to develop Chad's oil reserves and construct an export pipeline to Cameroon's Atlantic Coast. This project is now beginning to draw an increasing amount of public attention from NGOs, the press and donor governments. Although the project is included on the Bank's watchlist and will be listed under the new project alert system, we wanted to provide you with more details in light of this recent increase in public attention.

The project provides a unique opportunity for Chad to improve dramatically, through its own resources, the lives of its people, most of whom live in extreme poverty. The challenge for Chad, with our support, will be to use the revenues generated by the project to promote sound broad-based growth and poverty reduction, and avoid the problems that have plagued many of its oil-producing neighbors. With an estimated \$3.5 billion capital cost, this project also represents one of the largest private sector investments in the region. The oil company sponsors have stated that WBG participation (to consist of about \$115 million in IDA credits to the Governments for their equity stakes and \$250 million in IFC loans to the project companies, including about \$100 million in A-loans) is critical to their proceeding with the project. The Bank Group involvement would provide the political risk mitigation needed to support the sponsors' \$2.4 billion investment and to attract the required \$900 million of debt financing.

The Environmental Defense Fund is mobilizing public opinion against the project, raising concerns of another Nigeria Ogoniland, where large scale oil development has been seen as detrimental to the area's environmental and social fabric. There have also been recent newspaper articles on the project and several requests for briefings from ED offices (including the US and Germany). We understand from the German ED's office that a parliamentary committee is currently scheduled to discuss the operation Mid-May, although the government is likely to request that the discussion be postponed until

the fall, after the environmental assessment report required by the WBG has been finalized and released to the public.

The principal issues which have emerged to date are: (a) the use of IDA resources for a commercial petroleum project and concerns of "corporate welfare"; (b) the environmental and socio-economic impact of the project; and (c) the ability of Chad to use responsibly the substantial revenues generated by the project. As you may recall, the first issue was raised by several Executive Directors (including the US and France) during the discussion of the Chad CAS in February 1996. At the time, you informed the Board that we would explore alternatives to IDA funding, while recognizing that World Bank participation in some form was understandably necessary given the country risks. The debate surrounding the proposal for IBRD guarantees for enclave projects in IDA-only countries helped to establish that IBRD financing, through loans or guarantees, would not be forthcoming for this project, given in part the weak financial positions of both Chad and Cameroon and the nature of the project financing structure. Bank staff have since had several informal discussions with ED offices (e.g., US, France, UK and Germany), who appear to have acknowledged that given the limitations on IBRD to provide the critical risk mitigation through a guarantee or loan, IDA credits are an acceptable alternative.

We are addressing the second and third issues as part of project preparation and design, and will need to follow up closely through implementation. Exxon, as the operator, and the governments are preparing environmental assessment reports and mitigation plans, that will also address the socio-economic impacts of the project. We will be reviewing these reports and plans in detail. In addition, the Bank is preparing two parallel operations for Chad and Cameroon to build their capacity to manage the environmental aspects of the project. The Bank has also financed a panel of independent experts to advise the governments on environmental issues, including in reviewing the assessment reports and mitigation plans. Moreover, the Bank is working closely with the government of Chad to assist it in developing a credible revenue management program; transparency and participation are two principles which are being emphasized in this regard. These various issues are discussed in greater detail in the attached project summary. Although the concerns are real, we believe that they are manageable.

It is clear that this \$3.5 billion proposed petroleum project is likely to continue to attract attention. The project is expected to be presented to the IDA/IFC Boards in the third quarter of FY98 at the earliest. If you desire, we would be happy to meet with you to discuss this matter in greater detail.

Attachment

cc: Messrs./Mme. Madavo (AFRVP); Lee(CLEDG), Lietard (COMDR); Glantz, Lazarus (CEXVP); Berk (Acting Director of Chad/Cameroon); Ofosu-Amaah (LEGAF)  
AISC



Gautam,

May 15, 1997

Chad Cameroon Status Report,

On the surface, this is a decent status report, with a strongly optimistic PR flavor. There are two major issues: Will the Environmental Assessment and plans to deal with affected people be squeaky clean, and will the governments, particularly Chad, be able to handle the sharp increase in revenues in a satisfactory manner. Neither government has a particularly good track record, and EDF is launching a campaign against the project -- directly on the environmental issues, but also for the reason that they don't believe the governments will be able to handle the funds well, and they will be worse off after the windfall than before. Nigeria is apparently their model.

On checking, people working on the project in the Region recognize these problems and are trying to address them. The EA is not yet in, it is expected to be good (Exxon is doing it), but there are concerns that it will need more work and take more time. The Region is working with the government to strengthen capacity. Starting from near zero, there is a long way to go, but they are convinced they will have a good chance to succeed. The government is making all the right noises, but the money doesn't flow till 1999, when temptations will set in. Center staff working on the project are more concerned. They are not being brought in and have grave concerns about the Bank's ability to influence events after the IDA credits are disbursed. It is not clear enough capacity is being built to manage the environmental operations of the project once it gets underway.

Two suggestions: i) Given the reputational risks of the project and the need to be sure the Bank has done everything right and that the risks are acceptable, schedule an OC meeting in July when the current pressures have subsided a bit. ii) Add a cover note to JDW when you send on the Status Report

Jim, Not surprisingly, this Status Report is on the optimistic side as staff are working hard to get the project done. There are still serious questions to be resolved with the Environmental assessment and providing enough assistance and institution building to the governments so they can handle the windfall. We must be mindful that the project is attracting a great deal of attention from the NGOs, who will subject the Bank's adherence to environmental and other policies to great scrutiny. I will be monitoring this project closely, and we all need to be careful to hold the private operators and governments to high standards. We cannot afford another blow-up, and need to use what leverage we have up front.

Best, Jed

To Dume not a copy -

Handwritten notes in blue ink: OK, + last hour, OC after, EA + other, staff is in. An arrow points from the notes towards the main text.

Recd. 5-8-97

File: JAW  
BL

TO: Mr. Kaji

FROM: Marisela Montoliu  
(Assistant to the President)  
x37583

RE: Pipeline Project in Pakistan: Mr. Wolfensohn's Concern

DATE: 5/8/97, 2:00 pm

Mr. Kaji,

Mr. Wolfensohn has made a commitment to Senator Stevens that the Bank will "resolve" the issue of the claim by VECO Corporation of Alaska with regard to the Hub Fuel Oil Pipeline Project in Pakistan (background information attached, including progress report faxed last night to Mr. Wolfensohn). Senator Stevens is expecting the Bank to contact him in this regard.

Before we learnt about this commitment, Ms. Nishimizu had given strict orders to the relevant division chief (Per Ljung), who arrived in Pakistan today, to pursue this matter in Karachi.

How do you recommend that this be handled?

Thank you,

Marisela

✓ Marisela

I understand that Meiko and

she is in coordination

with Matt.

Jim Spivey  
yesterday  
Kandari walk  
with Matt.

  
5/8

The World Bank  
Washington, D.C. 20433

Page 1 of 7 MN

Office of  
**James D. Wolfensohn**  
President

Tel.: (202) 473-0524  
473-7583  
Fax.: (202) 522-1677

FACSIMILE TRANSMITTAL FORM

**DATE:** May 7, 1997

No. of Pages: 7  
(including this page)

**TO:** Mr. James D. Wolfensohn

**FAX #:** 48-22-694-8081

**FROM:** Hany Assaad & Marisela Montoliu  
Assistants to the President

**SUBJECT:** Pipeline Project in Pakistan

**MESSAGE:** Mr. Wolfensohn.

This fax is being sent both to the hotel and to the Resident Mission.

Total: Seven (7) pages including this cover.

To: Mr. Wolfensohn.

From: Marisela Montoliu, Assistant (202-473-7583 w: 202-244-3506 h)

Re: Pipeline Project in Pakistan: Status of the Claim of VECO Corporation of Alaska

Mr. Wolfensohn,

A report on our contacts with the office of Senator Stevens and with the Region on the VECO issue:

**Contact with Senator Stevens' office:** Matt MacHugh has been trying to get in touch with Brian Utter, the assistant to Senator Stevens, to find out exactly what is the source of their concern. He has not been able to contact him today, but will continue to try tomorrow.

**Contact with relevant Task Manager in the Region:** Mr. Fakhruddin Ahmed, from the South Asia Region, has got in touch by telephone with Mikail Mengesha, the Task Manager acquainted with this case, who is currently on mission in Karachi. His report on the current status of the VECO claim is as follows:

In your response of March 3, 1997 to Senator Stevens (attachment 1), it was mentioned that an audit was underway to resolve differences in development cost contributions made so far by various sponsors, including VECO Corporation of Alaska. The audit, done by a local firm, was found to be inadequate by APL's Board in its meeting on April 10, 1997. To give additional comfort to the sponsors, the Board decided in this meeting that the local firm should get assistance from its expatriate partner, Price Waterhouse, to do a revised audit of development cost contributions of VECO and other sponsors. This work is underway and expected to be completed by end-May. The equity contributions by various sponsors would be determined after this audit is accepted by APL's Board.

Mr. Stevens' (and VECO's) concern must be due to the slowness in the resolution of this audit (due to the additional step involving Price Waterhouse). Nevertheless, the reports that you received on March 3 and, subsequently, in Matt McHugh's report of April 24 (see attachment 2; prior to your luncheon with Senator Stevens)—indicating that there is work in process and that the Bank has been trying to facilitate it—were consistent with the facts.

In fact, the Bank is very concerned about delays in reaching closure on this Project, and is continuing to intervene with the Government of Pakistan and APL's management to ensure that this matter is brought to a close at an early date.

Mieko Nishimizu has sent strict instructions to the Division Chief in charge of this area (Per Ljung), who is about to arrive to Pakistan, to pursue this matter and encourage a quick resolution.

We will continue working on this, and will keep you informed. If you have any other specific questions, please let us know and we can request answers from Messrs. Mengesha and Ljung in Karachi.

The World Bank  
Washington, D.C. 20433  
U.S.A.

JAMES D. WOLFENSOHN  
President

March 3, 1997

The Honorable Ted Stevens  
Congress of the United States  
Capitol Hill  
Washington, D.C. 20515

Dear Ted:

*Pakistan: Private Sector Energy Development Project II  
(PSEDP II - Ln. 3812-PK) APL Fuel Oil Pipeline Sub-Project*

Thank you for your letter of February 10, 1997 regarding the Hub Fuel Oil (APL) Pipeline Project and the concerns expressed by one of the project sponsors, VECO Corporation of Alaska. As mentioned in your letter, the Project is now in its testing and commissioning phase, prior to issuance of the completion certificate by Stone & Webster USA, as the Lenders' Engineers on the Project. The pipeline has now been delivering oil to the Hub power plant for four months. Due to interventions by the Bank, APL is presently being paid about US\$2 million per month, a sum which is adequate to cover O&M costs, debt service and provide a reasonable return to the investors.

The concerns raised by VECO and their private sector partners with the delay in the Government of Pakistan's (GOP) decision-making process are shared by the Bank. We believe that a major contributing factor to the continued delays in negotiating the Implementation Agreement and approving the final tariff for APL has been the preoccupation of key officials with the initiatives of the Caretaker Government, as well as preparations for the recently held Federal elections. We hope that the new Government will focus on taking the required actions to bring the matter to a close.

With regard to VECO's role as the Operator, it is our understanding that APL's Board decided to undertake the O&M role internally since VECO's proposal for the O&M work was seen as uncompetitive relative to similar projects in Pakistan. Unfortunately, an issue has arisen regarding the 'in-kind' contribution as equity by various sponsors (not only VECO's but also those of Pakistan State Oil, the public sector partner in APL). However, we have been assured by APL management that it is committed to resolving such differences on the development cost contributions made so far and, to that end, auditors are currently engaged to complete this task prior to financial close.

The Honorable Ted Stevens

-2-

March 3, 1997

The Bank, as a lender, is concerned that the pipeline is operated and maintained in accordance with international industry standards. Because of this, and as a prudent measure to safeguard proper operations, the lenders have secured the services of Stone & Webster to certify and ensure that APL will continue to have the capability, as they do now, to operate and maintain the pipeline and ancillary facilities in a satisfactory manner.

In conclusion, because I share your concerns regarding potential further delays in reaching closure on this Project, let me assure you that the Bank will continue to intervene as and when necessary with the Government of Pakistan and APL's management and Board to ensure that they are sufficiently encouraged to agree to a pipeline tariff that provides adequate returns to the private sector sponsors. Lastly, the Bank and other lenders intend to use their influence so that the project sponsors get adequately compensated for their contributions to the project, as well as ensure the Project's *operational phase* continues to be sustainable.

With best regards.



Sincerely yours.



James D. Wolfensohn

- cc: Mr. Pete Leathard, President, VECO Corporation
- Mr. Waleed Hadid, Managing Director, IPG
- Mr. Brian Chang, Chairman, Asia Petroleum Ltd.
- Mr. K. I. Hamid, Managing Director, APL
- Mr. Abdul Karim Lodhi, Alternate Executive Director, World Bank

Matthew F. McHugh  
Counselor to the President

April 22, 1997

Mr. James D. Wolfensohn

Re: Your Lunch with Senator Stevens on April 24

Jim:

This Thursday, April 24, you will be having lunch with Senator Ted Stevens in his office. Since you are personal friends, and this is designed as a "one-on-one" session, it is probably best for you to go alone. I will hold the time open on my schedule, however, in the event that for any reason you decide it would be useful for me to attend.

I am sure that Senator Stevens would be interested in the changes that you are implementing at the Bank under the Strategic Compact. Of course, you will also want to stress the critical importance of full funding for IDA, i.e., \$800 million for IDA 11, plus \$234.5 million to cover the arrears from IDA 10. As you know, the restriction on U.S. procurement in the Interim Trust Fund continues to be an irritant with some members of Congress. However, you can report that, with your help, the Treasury made significant progress in getting other donors to tentatively set aside about \$1 billion in the Trust Fund, which you are confident they will make available for U.S. procurement later this year if Congress appropriates the full amount for IDA.

In addition to the Strategic Compact and IDA, the following two issues are relevant with Senator Stevens:

- Section 602 (b) Allocations. Pursuant to Section 602(b) of the Budget Act, the budget resolution adopted by Congress will provide the Appropriations Committee with an aggregate amount to cover all discretionary spending for FY98. This discretionary spending pot will then be subdivided among the 13 subcommittees of the Appropriations Committee. The allocation given to each subcommittee is the ceiling within which it must write its appropriations bill. As a practical matter, the Chairman of the Appropriations Committee (Stevens) and his subcommittee chairs determine how much these allocations will be.



Mr. James D. Wolfensohn

-2-

April 22, 1997

If the opportunity presents itself, you should encourage Senator Stevens to be as helpful as possible with the 602(b) allocation for Foreign Operations. As I recall, last year the House allocation for Foreign Operations was \$12 billion, the Senate allocation was \$12.3 billion, and the final Conference agreement was \$12.125 billion.

- Pipeline Project in Pakistan. Senator Stevens wrote to you in February to secure your help in resolving a claim by a constituent company, VECO Corporation of Alaska, in connection with the Hub Fuel Oil (APL) Pipeline Project in Pakistan. For your information, I am attaching a copy of his letter, together with your response of March 3, 1997. Last month, shortly after your response, I spoke with the Senator's staff about this (Brian Utter) and put him in touch with the person in our South Asia region who is familiar with this project (Mikael Mengesha). Mr. Mengesha advised me that the Bank was actively engaged in encouraging the Pakistani government to resolve the outstanding claims. Mengesha is currently on mission, but I spoke this morning with the Division Chief, Per Ljung, who promised to call our office in Pakistan and give me a current report. I will provide you with an update on this prior to your luncheon.

Please let me know if I can be of any further help.



Matt

Attachments

Update LOG  
JDW BB

4/25

JAMES D. WOLFENSOHN  
President



April 25, 1997

Mr. Caio Koch-Weser  
Managing Director, Operations

Caio:

Thank you for your note concerning education. I accept the explanation but would like some more details:

- 1) Please give me a list of the pipeline;
- 2) Give me a complete list of the projects now under implementation together with the amounts that are not expended;
- 3) Give me a breakdown of educational spending by type, as well as geography, including, quite specifically, projects that are regarded as assisting girls. I would also like this information in regard to the projects in the pipeline;

I am completely certain that if you spoke to me in January, you did not give me numbers and that I was not alerted to the seriousness of the issue. It is possible that I misunderstood but in future, if you have serious issues like this, I would expect that you put them on paper or make certain that I understand.

I agree with you that there is a need to work more closely together. I am greatly distressed because it takes a crisis like this for me to get the first glimpse of the facts and it makes me look completely ridiculous in terms of my outside statements.

Obviously, if you need my help or Elaine's in convincing countries to borrow, then this could be part of our briefs. To my knowledge, in no single case have we ever been asked to address the issue of IBRD lending terms or the issue of girls education as "bankable investments." I believe that we continue to need a very high level meeting between me, you, Gautam, and the people in education so that in the central area there is no misunderstanding.

Finally, I would like to have similar information now on all the soft areas in the social and environmental sectors so that there is absolutely no room for misunderstanding by me.

*Thanks*

*Jim*  
James D. Wolfensohn

cc: Mr. Gautam Kaji ✓  
Mr. Sven Sandstrom

**Confidential**

The World Bank  
Washington, D.C. 20433  
U.S.A.

GAUTAM S. KAJI  
Managing Director  
Operations

CAIO K. KOCH-WESER  
Managing Director  
Operations

Mr. James D. Wolfensohn

April 25, 1997

## **Lending for Education: Quantity and Quality**

Jim,

1. You raised concerns about education lending. We look forward to meeting with you to discuss the issues in detail, but in the meantime we wanted to provide you with some facts and explanations. The bottom line is that quantity (as measured by new loan approvals) is down, but quality (as measured by portfolio ratings and disbursements) is up. The challenge is to make sure that the former is temporary and that the latter is permanent. We need your help in meeting this challenge.

### **I. The Facts**

2. **Loan Approvals and Pipeline.** As you know, FY97 loan approvals for education are expected to come in at under \$1 billion. This is a sizable drop from the \$1.8 billion approved in FY96: it's the lowest level since FY89. The pipeline does suggest a strong rebound for FY98 and FY99, to over \$2.5 billion each year. Though we discount these numbers, we have every reason to expect that there will be a strong recovery from this year's very low level.

3. **Reasons for Low Lending Levels.** The decline in new approvals reflects a confluence of several factors. Some are purely client-related, and we can provide you with the specifics on these. But most reflect the overriding priority we have been attaching to portfolio management, results on the ground, and quality. Reflecting this priority, we have been shifting resources from new lending to supervision, where staff weeks now exceed new lending resources by 16 percent. This is a reversal of previous relativities: indeed, in FY94, when new loan approvals for education peaked, we were spending 50 percent more on new lending than on supervision. We also have been focusing on quality at entry: by using a sharp knife to cut "dogs" out of the pipeline, by delaying new operations until existing ones are performing better, and by taking longer to get operations right from the outset. In a year of transition, the result is lower new lending levels.

4. **Quality.** The education portfolio has generally performed better than others. But it deteriorated in FY95, when the sector's share of problem projects rose above the Bank

average. This was an important wake-up call for the sector, to which it responded well, including through the beginning of the above-mentioned shift of resources from new lending development to supervision, and within lending development to quality assurance. We are now seeing improvements in ARPP ratings, and in the quality of new projects entering the portfolio. On the latter, the ECON results for the education sector have recorded the strongest improvement of all the sectors — reflecting the Network's (and its predecessor's) very strong training program.

5. **Disbursements.** One key dimension of quality is disbursements, which are up — and by quite a lot. Through the third quarter of FY97, disbursements have totaled \$1.3 billion. This is over 30 percent above the level recorded in the same period of FY95 and FY96, and it is almost twice the *full-year* disbursement level recorded in the early 1990s. Of course, we can't keep disbursing more than we are committing for very long. But this problem is largely self-correcting since it will increase client demand for new loans. This is a critical factor that has been very weak: witness the virtual absence of the large borrowers in Latin America and Asia from the education lending roster this year.

## II. Communicating with Internal and External Partners

6. **Network Surveillance.** The Network has done a good job of tracking lending — and other operational indicators in the sector — diagnosing problems, and keeping us and the Regions informed about developments. David sent us a memo in December signaling the decline in lending and the reasons for it, and we raised the issue with you in January. The Network also has been in regular contact with the Regional Vice-Presidents on the trends and the underlying factors. For these reasons — and our above take on the quantity/quality tradeoff this year — we have felt that the situation was under control. That said, there is an important lesson here — and that has to do with our communications with you. We clearly need to do a better job both of keeping you informed about emerging trends and of anticipating your concerns, especially for your communications with external partners.

7. **Client Focus.** We also hope to be able to enlist your active assistance in the dialogue with clients, in two particular areas. First, some clients are not convinced of the appropriateness of borrowing for education, *especially on IBRD terms*. This is true of China, many ECA countries, and some MNA countries. Of course, our view is that education is a high-return investment, and IBRD borrowing to finance it is fully warranted. This is a message that we are hoping you will help us to get across to key clients. The second issue is closely-related — girls' education: as you know, where commitment to education is weak, commitment to girls' education is weaker still. Convincing our clients that basic education and girls' education are *bankable investments* is a key challenge in the sector. Your and Elaine's help on education has given the sector an enormous boost. We now seek your further assistance in this important endeavor. It will greatly influence our ability to get the results on the ground we seek in the sector, and also to meet the lending targets cited in your note.

cc: Mr. Sandstrom

Cairo 4/25

JAMES D. WOLFENSOHN  
President

DECLASSIFIED

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WBG ARCHIVES

4/24  
① DOG  
② SK  
CKW preparing response.  
CONFIDENTIAL

April 23, 1997

Mr. Gautam S. Kajji, Managing Director, Operations ✓  
Mr. Caio Koch-Weser, Managing Director, Operations


Gautam and Caio:

I have just received from David de Ferranti the advance statistics on the schedule of approvals for education projects for FY97. Given that I raised my concerns already in 1996, I regard this level of approval as totally unacceptable. I have asked David to get in touch with you to arrange for a meeting, with the greatest urgency, for me and the relevant officers concerned.

I speak everywhere to the prime importance of education in terms of poverty alleviation and I now find that although our level of disbursements is running at a level of somewhere above \$1,200,000,000 annually, our level of approvals has fallen to \$1 billion from the \$2.5 billion that I always talk about, and which we have never achieved. As for lending for girls' education, which again, I always talk about, and which our Annual Report proclaims as being targetted at \$900 million, this year it will reach the grand total of \$300 million compared with last year's \$500 million, which was against our target of \$900 million.

If there is any accountability in this world at all, this case needs to be addressed with great urgency.

I have asked David to look into the other social areas for which he is responsible and I would like you to ensure that I get a report on social lending as soon as possible, because I do not want any more surprises, nor do I want to make myself look more of a complete fool when I make my public speeches.

  
James D. Wolfensohn

cc: Mr. Sandstrom

① SK  
② JDW file

A I L - I N - 1 N O T E

DATE: 18-Apr-1997 10:42am

TO: See Distribution Below

FROM: Caroline Anstey, EXC ( CAROLINE ANSTEY@A1@WBWASH )

EXT.: 31800

SUBJECT: Speeches

Mr. Wolfensohn's speaking calender is now very heavily booked up until the Annual Meetings. In a conversation this morning he made it plain that in the period following the Annual Meetings through to the end of the year, he wishes to make only 4 or 5 speeches. The rest of the time he wants to devote to implementation of the Compact. He therefore asks that where possible we field speaking requests to MDs and VPs and that we look at requests for him to speak - which come in from the outside and from inside the Bank - extremely rigorously and make it plain in all cases that his first responsibility is to manage change within the Bank. He also asked that he not be asked to represent the Bank at a speaking event unless it is an absolute priority.

We will corordinate requests at this end and get MD's inputs into what are the strategic priorities.

Best,

Caroline

DISTRIBUTION:

TO: Jessica P. Einhorn	( JEINHORN@notes.worldbank.org@in
TO: Richard Frank	( RICHARD FRANK@A1@WBWASH )
TO: GAUTAM KAJI	( GAUTAM KAJI@A1@WBHQB )
TO: Caio Koch-Weser	( CAIO KOCH-WESER@A1@WBWASH )
TO: Sven Sandstrom	( SVEN SANDSTROM@A1@WBWASH )
TO: Mark Malloch Brown	( MARK MALLOCH BROWN@A1@WBWASH )
CC: Hany Assaad	( HASSAAD@notes.worldbank.org@int
CC: Marisela Montoliu	( MMONTOLIUMUNOZ@notes.worldbank.

# THE WORLD BANK GROUP

<b>ROUTING SLIP</b>		<b>DATE:</b> April 2, 1997	
<b>NAME</b>		<b>ROOM. NO.</b>	
Gautam Kaji, <i>AK</i>		D10-065	
<i>4/3</i>		<i>Wolfensohn</i>	
<input type="checkbox"/>	URGENT	<input checked="" type="checkbox"/>	PER YOUR REQUEST
<input type="checkbox"/>	FOR COMMENT	<input type="checkbox"/>	PER OUR CONVERSATION
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<input type="checkbox"/>	FOR SIGNATURE	<input type="checkbox"/>	PREPARE REPLY
<input type="checkbox"/>	NOTE AND CIRCULATE	<input type="checkbox"/>	NOTE AND RETURN
<b>RE:</b>			
Letter to Mr Wolfensohn from Business Council for Sustainable Energy and Draft Reply			
<b>REMARKS:</b>			
<p>Guatam:</p> <p>You asked for comments on the request by the Business Council for Sustainable Energy (BCSE) for a meeting with Messrs Wolfensohn.</p> <p>BCSE is an NGO funded by the clean energy industry (manufacturers of clean coal and renewables plant, environmental clean up equipment etc). While they obviously have a vested interest in enlarging the market for the kind of equipment their members make, the BCSE is a responsible outfit and has helped us to organize industry consultations here, and through their European affiliate in Brussels: specifically the discussions we have held on our evolving Energy and Environment strategy. They should not be confused with the World Business Council for Sustainable Development (WBCSD) with which the Bank Group has been involved in pilot Activities Implemented Jointly.</p> <p>There does not seem any value in arranging a meeting with Jim at this stage. But it would be good if you could see them. We can then get more specifics on their proposals and take things from there. The attached draft response from Mr Wolfensohn reflects this approach.</p>			
<b>FROM</b>		<b>ROOM NO.</b>	<b>EXTENSION</b>
Richard Stern		G2-005	36826

*Richard*



**The World Bank**  
Washington, D.C. 20433  
U.S.A.

JAMES D. WOLFENSOHN  
President

April 3, 1997

Mr Michael L Marvin  
Executive Director  
The Business Council for Sustainable Energy  
1200 18th Street NW  
Ninth Floor  
Washington DC 20036

Dear Mr Marvin

I write to thank you for your letter of March 13 and for your encouraging comments concerning the renewal process that we are now engaged upon.

Your proposals are certainly interesting and merit further debate. I gather from both your letter and my colleagues that you have had some discussions with our staff who are preparing an energy and environment strategy which will be for presented to our Board for their consideration later on this year. We expect this strategy and its implementation to be one of the central pillars of our activities in the energy field over the coming years. This work has relied, and will continue to rely, on extensive external and internal consultation to ensure that what we do is consistent with the overall objectives of the Bank.

I'd therefore like to take up your suggestion that my staff work with you to see how your proposals can support our overall reform agenda and our energy/environment policy. I suggest that the best way to go about this is by first meeting with Gautam Kaji and Richard Stern and his staff who are actively developing the new energy/environment agenda. In this connection, I have asked Richard to get in touch with you, and I have asked Gautam and Richard to keep me briefed.

I hope that our exchanges will be useful and I look forward to hearing of the results.

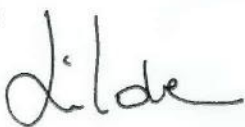
Sincerely yours,

James D. Wolfensohn

cc: Messrs./Mmes. G. Kaji, C. Koch-Weser (EXC), J. F-Rischarde (FPDVP),  
R. Stern (IENDR).

EXC Ref: {Exec Ref. 16822}

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: March 28, 1997	
<b>OFFICE OF MANAGING DIRECTORS</b>			
<b>OPERATIONS, POLICIES AND PROGRAMS</b>			
NAME		ROOM. NO.	
Mr. Richard Stern - Fax # 522 3743			
<i>(Total 4 pages)</i>			
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	<b><i>For action please</i></b>	<input type="checkbox"/>	Recommendations
<b>RE: The Business Council for Sustainable Energy - Letter from Mr. M. Marvin</b>			
<b>REMARKS:</b>			
Mr. Stern,			
<p style="margin-left: 40px;">I'm referring to the attached letter which was sent to the President. Mr. Kaji would very much appreciate it if you could look into this and come back to us. Do you know this Business Council? Any advice?</p>			
<p style="margin-left: 40px;">Many thanks in advance.</p> <div style="text-align: right; margin-right: 100px;">  </div>			
cc.: Ms. Tsatsakis (routing slip only)			
<b>FROM:</b> Hilde Pieters		<b>EXTENSION:</b> 80365	



Attn: Hilde per our conversation  
 No.: EXC-16822  
 AL 3/28

CORRESPONDENCE MANAGEMENT FOR THE PRESIDENT'S OFFICE

**CHORUS**

**External Correspondence Profile**

**FOR ACTION:** Allison Tsatsakis

**STATUS:** Open

VPU: EXC Room #: E1233	Log Date: 03/19/97 10:25:24 AM
Telephone: 84776	Logged in by: Use Allipui
	Response Date:

**CORRESPONDENCE DESCRIPTION:**

From: Michael L. Marvin, Executive Director	- Late April / end May -
Organization: The Business Council for Sustainable Energy, Washington, DC	
To: Mr. Wolfensohn	
Dated: 03/13/97	
Topic: Request to schedule a meeting with Messrs. Wolfensohn, Kaji and Koch-Weser et al to discuss the goal to improve Bank service to clients, stakeholders, and donor countries	

**ACTION INSTRUCTIONS:**

**Due Date: 04/02/97**

2. PLEASE HANDLE AND PROVIDE ONE COPY OF THE REPLY TO THE CORRESPONDENCE UNIT WITH THE EXC REFERENCE NUMBER MARKED UNDER THE BANK COPY RECIPIENTS.

If the action marked is incorrect, or an item of correspondence has been overtaken by events, please send an E-Mail to the "Correspondence Unit" All-in-One account.

Thank you.

**SPECIAL INSTRUCTIONS:**

Please advise if this is to be routed elsewhere.

Contact: Kirk Brown

202 - 785 - 0507.

3/20 Acknowled.

**INFORMATION COPIES:**

Please return to:  
 Correspondence Unit, Room E1247 (Ext. 82441)

3/20

Hany - pls review & advise.

3/27 - Pls forward to Koch-Weser / Kaji -  
 pls advise if mtg should be scheduled  
 for Mr. Wolfensohn. (HA)

3/28 - Faxed to Hilde - to check w/ GK. (522-3399) (HA)

EXC Noted  
LI AT ②



**The  
Business Council  
for  
Sustainable  
Energy**

1200 18th Street, NW  
Ninth Floor  
Washington, DC 20036

Phone 202-785-0507  
Fax 202-785-0514

March 13, 1997

Mr. James Wolfensohn  
President  
The World Bank  
701 19th Street, NW  
Washington, D.C. 20433

Dear Mr. Wolfensohn:

The members of the Business Council for Sustainable Energy are very interested in your efforts to bring positive changes to the World Bank. We are eager to discuss with you some of the practical implications of the reforms you propose. If your schedule permits, we respectfully request a meeting between yourself, Messrs. Kaji and Koch-Weser, and other lead bank directors to discuss your goal to improve Bank service to clients, stakeholders, and donor countries. This meeting could build on the positive dialogue established between the Bank and members of the clean energy industry during a consultation we convened with Bank staff on November 1, 1996.

We believe the energy/environmental policy papers the Bank adopted in 1992 can be critical to supporting your efforts to create a "culture of implementation" at the Bank. By operationalizing the energy/environment policies, the Bank can simultaneously create a template for operationalizing other Bank policy directives and reaffirm its ongoing commitment to the dual imperatives of alleviating poverty and promoting sustainable economies.

During this proposed meeting, we will present three proposals we believe can help to maximize your efforts to operationalize the energy/environmental policies. These are:

- Establishing "clean energy task managers" in the Bank's operational regions
- Expanding the bank's loan guarantee program to include performance guarantees for clean energy technologies
- Basing performance incentives for bank staff on the environmental benefits of projects.

We would like the opportunity to provide greater detail about each of these proposals and how they can complement your current reform efforts. We also can work with your staff to ensure that the proposals are crafted in a way to best support your reform agenda.

JAMES D. WOLFENSOHN  
President

April 3, 1997

Mr Michael L Marvin  
Executive Director  
The Business Council for Sustainable Energy  
1200 18th Street NW  
Ninth Floor  
Washington DC 20036

Dear Mr Marvin

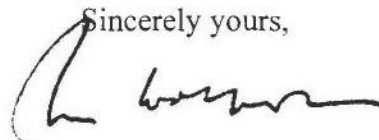
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I hope that our exchanges will be useful and I look forward to hearing of the results.

Sincerely yours,



James D. Wolfensohn

cc: Messrs./Mmes. G. Kaji, C. Koch-Weser (EXC), J. F-Rischar (FPDVP),  
R. Stern (IENDR).

EXC Ref: {Exec Ref. 16822}

# THE WORLD BANK GROUP

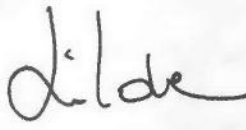
Recd. 4-9-97

<b>ROUTING SLIP</b>		<b>DATE:</b> April 2, 1997	
<b>NAME</b>		<b>ROOM. NO.</b>	
Gautam Kaji, <i>EXD</i>		D10-065	
<i>4/3</i>		<i>Mr. Wolfensohn</i>	
<input type="checkbox"/>	URGENT	<input checked="" type="checkbox"/>	PER YOUR REQUEST
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<b>REMARKS:</b>			
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<b>FROM</b>		<b>ROOM NO.</b>	<b>EXTENSION</b>
Richard Stern		G2-005	36826

*Richard*



# THE WORLD BANK GROUP

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<b>OFFICE OF MANAGING DIRECTORS</b>			
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<p style="margin-left: 40px;">I'm referring to the attached letter which was sent to the President. Mr. Kaji would very much appreciate it if you could look into this and come back to us. Do you know this Business Council? Any advice?</p>			
<p style="margin-left: 40px;">Many thanks in advance.</p>			
			
cc.: Ms. Tsatsakis (routing slip only)			
<b>FROM:</b> Hilde Pieters		<b>EXTENSION:</b> 80365	



Attn: Hilde per our conversation  
No.: EXC-16822

Al: 3/28

CORRESPONDENCE MANAGEMENT FOR THE PRESIDENT'S OFFICE  
**CHORUS**

**External Correspondence Profile**

FOR ACTION: Allison Tsatsakis

STATUS: Open

VPU: EXC Room #: E1233	Log Date: 03/19/97 10:25:24 AM
Telephone: 84776	Logged in by: Ise Alipui
	Response Date:

**CORRESPONDENCE DESCRIPTION:**

From:	Michael L. Marvin, Executive Director
Organization:	The Business Council for Sustainable Energy, Washington, DC
To:	Mr. Wolfensohn
Dated:	03/13/97
Topic:	Request to schedule a meeting with Messrs. Wolfensohn, Kaji and Koch-Weser et al to discuss the goal to improve Bank service to clients, stakeholders, and donor countries

- Tatalupui / end May -

**ACTION INSTRUCTIONS:**

Due Date: 04/02/97

2. PLEASE HANDLE AND PROVIDE ONE COPY OF THE REPLY TO THE CORRESPONDENCE UNIT WITH THE EXC REFERENCE NUMBER MARKED UNDER THE BANK COPY RECIPIENTS.

If the action marked is incorrect, or an item of correspondence has been overtaken by events, please send an E-Mail to the "Correspondence Unit" All-in-One account.

Thank you.

3/20 Acknowled.

**SPECIAL INSTRUCTIONS:**

Please advise if this is to be routed elsewhere.

Contact: Kirk Brown

**INFORMATION COPIES:**

202-785-0507.

Please return to:

Correspondence Unit, Room E1247 (Ext. 82441)

3/20

Hany - pls review & advise.

3/27 - Pls forward to Koch-Weser / Kaji -  
pls advise if mtg should be scheduled  
for Mr. Wolfensohn. (HA)

3/28 - Faxed to Hilde - to check w/ GK. (522-3399) <sup>Fax</sup> Al



**The  
Business Council  
for  
Sustainable  
Energy**

1200 18th Street, NW  
Ninth Floor  
Washington, DC 20036

Phone 202-785-0507  
Fax 202-785-0514

March 13, 1997

Mr. James Wolfensohn  
President  
The World Bank  
701 19th Street, NW  
Washington, D.C. 20433

Dear Mr. Wolfensohn:

The members of the Business Council for Sustainable Energy are very interested in your efforts to bring positive changes to the World Bank. We are eager to discuss with you some of the practical implications of the reforms you propose. If your schedule permits, we respectfully request a meeting between yourself, Messrs. Kaji and Kuch-Weser, and other lead bank directors to discuss your goal to improve Bank service to clients, stakeholders, and donor countries. This meeting could build on the positive dialogue established between the Bank and members of the clean energy industry during a consultation we convened with Bank staff on November 1, 1996.

We believe the energy/environmental policy papers the Bank adopted in 1992 can be critical to supporting your efforts to create a "culture of implementation" at the Bank. By operationalizing the energy/environment policies, the Bank can simultaneously create a template for operationalizing other Bank policy directives and reaffirm its ongoing commitment to the dual imperatives of alleviating poverty and promoting sustainable economies.

During this proposed meeting, we will present three proposals we believe can help to maximize your efforts to operationalize the energy/environmental policies. These are:

- Establishing "clean energy task managers" in the Bank's operational regions
- Expanding the bank's loan guarantee program to include performance guarantees for clean energy technologies
- Basing performance incentives for bank staff on the environmental benefits of projects.

We would like the opportunity to provide greater detail about each of these proposals and how they can complement your current reform efforts. We also can work with your staff to ensure that the proposals are crafted in a way to best support your reform agenda.

The Bank is at an important juncture in its efforts to firmly establish its identity as the leading international lending institution committed to promoting sustainable development. We believe that your current efforts, to be the most successful, should result in clear reform proposals that operationalize long-standing bank policy on the environment and poverty alleviation. Members of the clean energy industry stand ready to support you in this critical effort. We look forward to the opportunity to meet with you and your lead Bank Directors to offer our support for your reform efforts.

Sincerely,



Michael L. Marvin  
Executive Director

cc: Robert B. Catell, Chairman and President, Business Council for Sustainable Energy, Chairman and CEO, Brooklyn Union (NY)  
Terrence Thorn, Chairman, Business Council for Sustainable Energy International Task Force, Senior Vice President, Enron Corp.

# OFFICE MEMORANDUM

DATE: March 24, 1997

TO: Mr. James D. Wolfensohn

THROUGH: Mr. Gautam S. Kaji

FROM: Mr. Jean-Michel Severino

EXTENSION: 38896

SUBJECT: PAPUA NEW GUINEA: Recent Developments

I thought you should be aware of the attached update on developments in Papua New Guinea prepared by EA3. I will keep you posted on any important changes in the situation.

Attachment

## PAPUA NEW GUINEA

### UPDATE ON RECENT DEVELOPMENTS

- o Sir Julius Chan's engagement of South African mercenaries in the conflict on Bougainville has escalated into a major constitutional crisis. The situation in Port Moresby is tense, and the outcome uncertain. Matters are expected to come to a head on Tuesday when the Parliament meets for the last time before the national elections in June, and it is possible Sir Julius will be out.
- o When news of PNG's plans to use mercenaries in Bougainville first leaked in late February, Australia and others expressed grave concern and urged Chan to reconsider. His initial response was to claim they were only there to train the PNG Defense Forces, but he refused to rule out their participation in actions on Bougainville. Domestic criticism was muted by Chan's claim of "colonialist interference". Until last Monday when the Chief of the Defense Forces, Jerry Singirok, went on a radio talk show to say that his forces had confined the mercenary group to their barracks and called on the PM, the Deputy PM and the Minister of Defense to resign -- within 48 hours. He indicated Chan had lied about the contract and that there was considerable corruption involved.
- o By Monday night, the Cabinet met and endorsed Chan's decision to sack the General. On Tuesday, General Singirok accepted that outcome, but a rally by civilians outside the main barracks in Port Moresby supported him. Protest leaders repeated the call for resignations. Civil disturbances broke out, with sporadic looting and bomb threats on Government buildings.
- o These disturbances continued through Friday, with additional pressure on Chan to resign generated by the release to the press of the Sandline International contract. It is now clear that the cost was potentially much higher than the quoted US\$36 million; that the primary objective was to secure the Panguna copper mine, with a secondary objective to neutralize the rebel leadership; and that the mercenaries would have a free hand to do whatever was necessary to achieve the objectives.
- o The army has stood firmly behind Singirok, who has remained at the Barracks. They refused to accept Chan's appointed replacement, a Naval Officer who fled the barracks after his family was threatened and his car was set fire to by soldiers. The Chief of Staff, Colonel Tuat, is now in command. The mercenaries have been deported, except for their leader, who has been arrested on a weapons charge. Singirok and his supporters claim his actions do not constitute a coup, but there is no sign that the army has any intention of backing down. Student demonstrators from UPNG, other NGO groups and opposition politicians have intensified their calls for Chan to resign.
- o Chan has agreed to establish a Commission of Inquiry to investigate the Sandline Contract, as demanded by Singirok, but has indicated he will not step down during the investigation. Technically, the Parliament cannot force him out. Even if the opposition had the votes, the constitution does not allow a vote of no confidence within 12 months of the elections. The Governor General, and others in Chan's coalition, are reported to be trying to convince him to at least step aside temporarily, in favor of an interim Government, but he has refused up to now to consider it.
- o Visiting Bank missions have all left PNG, and we have canceled further missions until the situation returns to normal. Some expatriates have left, and Australia advised their citizens to avoid non-essential travel to Port Moresby. Schools and shops were closed last week, but expected to re-open this week, pending developments tomorrow when Parliament convenes at 2:00 pm.



# Record Removal Notice

<b>File Title</b> James D. Wolfensohn - Chronological File - January 1997 through November 1997		<b>Barcode No.</b>  30314534		
<b>Document Date</b> March 24, 1997	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Ms. Ruth Jacoby, EDS20 From: Johannes F. Linn, Vice President, ECA				
<b>Subject / Title</b> Russia: Improvements in Project Implementation				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> May 18, 2017</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 18, 2017
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 18, 2017			

**THE WORLD BANK**

Managing Director, Operations

March 19, 1997

Mr. James D. Wolfensohn, President

Jim,

In response to your query, I had raised the same issue with the Region. Please see the note I received from Mieko.

A handwritten signature in black ink, appearing to read "Gautam S. Kaji", with a long horizontal flourish underneath.

*Attachment*

**GAUTAM S. KAJI**



file copy

Recd. 3/18/97

The World Bank  
Washington, D.C. 20433  
U.S.A.

① LOG  
② GK

JAMES D. WOLFENSOHN  
President

March 14, 1997

Mr. Gautam Kaji  
Room No. D 10-065  
The World Bank

Dear Gautam,

What is the background on this letter from Sri Lanka?



James D. Wolfensohn

Enclosure

DECLASSIFIED  
MAY 17 2017  
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CONFIDENTIAL

3/13

Custom,

RE. A SRI LANKAN COMPLAINT

Per your query of 3/03,  
the attached from Fakhuddin  
reports what we are able to  
find out - albeit very little.

I will of course inform you  
if and when any additional  
facts emerge. My own "network"  
here and in the country is just  
as puzzled. Some think this is  
a Tamil harassment on the Bank.

Wicks 3/12.

March 11, 1997

Mieko,

1. The letter (to the Editor) conveys a lack of understanding how the Bank's program is rooted in its assistance strategy. The writer wrongly draws a link between country management-in-field and lower lending to Sri Lanka during FY97. He even misrepresents that the proposed GEF grant for conservation of medicinal plants will be a loan. As regards transport infrastructure, the Bank's sector work was openly and hotly debated in an open workshop at Colombo earlier this fiscal year and the Bank's position/sector strategy should be widely known.

2. Roberto does not know the person and could not locate him from a quick inquiry. I talked to a Sri Lankan colleague who has good connections in Colombo. He also could not find anything about this person from his connections. I would not take the contents of the letter seriously unless the issues continue to be raised in the media.

3. As regards the writer's views about Roberto, I would not take these seriously. What Roberto has done in terms of expanding Colombo Resident Mission has our full support. Also the note to Gautam is essentially anonymous without any return address and written in capital letters only.

*Fakhrudin*  
Fakhrudin

*3-3-97*  
*4:28 pm*

**THE WORLD BANK GROUP**

ROUTING SLIP		DATE: March 3, 1997
<b>OFFICE OF MANAGING DIRECTORS</b>		
<b>OPERATIONS</b>		
NAME		ROOM. NO.
Ms. Mieko Nishimizu		MC10-123
<input checked="" type="checkbox"/>	To Handle	Note and File
<input type="checkbox"/>	Appropriate Disposition	Prepare Reply
<input type="checkbox"/>	Approval	Per Our Conversation
<input type="checkbox"/>	Information	Recommendations
<b>RE: Sri Lanka</b>		
<b>REMARKS:</b>		
<p>Mieko,</p> <p>For your information. Do you know this person?</p> <p>Gautam</p>		
<b>FROM:</b> Gautam S. Kaji		<b>EXTENSION:</b> 81384

*Fakhundata*  
**URGENT.**  
*Facts please -*

*Mieko*  
*3/3*

ISLAND NEWSPAPER FEB 24, 1997

# 'WB elevates Lanka Office' — a reply

DECLASSIFIED  
MAY 17 2017  
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Representative when the World Bank's most high priority country programs for Viet Nam, Indonesia, Philippines and India, Pakistan, etc., etc. are drafted in New York shows that our government is being taken to an expensive ride which future generations will need to pay for. Experimentation with small poor countries like Sri Lanka, Kenya or big ones like Mexico must stop! Gamin Edirisinha Kalutara

valuation and research of medicinal plants! The government will also borrow some US \$30 million (thirty million dollars!) to engage foreign consultants to reorganize the Mahaweli Authority, within our own Sri Lankan expertise doing such work in numerous developing countries for the ADB, the World Bank and specialized UN agencies!

In conclusion, giving the planning and decision making authority to a Resident

investments in order to facilitate both foreign and local private investment! On the contrary, the program proposed by the Resident Representative shows a degree of experimentation with "solar photovoltaic home energy systems" and wind power demonstration instead of conventional base load power generation which the country sorely needs, as well as throwing more and more millions of jobs

superior to the right priorities being addressed in terms of the World Bank's sector investment strategy in Sri Lanka? However, a review of the proposed lending program shows that there are no World Bank assisted projects for power generation, road construction and empowerment, participation or telecommunication development, in the next two years, although those infrastructure sectors require major external

only 10 percent of its staff in the field offices? Reliable sources indicate that since this organizational change occurred in Sri Lanka in 1990, the prospective lending program for our country has actually been drastically reduced, and that by 1996 the lending target will be about 20-25 percent of the lending achieved in 1995, when lending decisions were made in headquarters. So, in our country, does this organizational change

refer to your news item under the above caption and wish to raise some issues arising from the elevation of the resident representative to country manager and the expansion of the World Bank office here. Firstly, does the lending program for Sri Lanka benefit from such an expansion of the World Bank office here. Secondly, does the lending program for Sri Lanka benefit from such an expansion of an institution whose management and decision making is highly centralized in Washington DC with

*Metha* p.22  
*For your info you know?*  
KALUTARA  
SRI LANKA.  
*Person?*

PERSONAL  
TO: MR G. KATI

From: Gamin Edirisinha, CONSULTANT

THE WORLD BANK'S ROLE AND ESTABLISHMENT IN SRI LANKA REQUIRES YOUR IMMEDIATE PERSONAL ATTENTION. PLEASE INQUIRE WHY THE FIELD OFFICE HAS EXPANDED RAPIDLY WHILE LENDING TO SRI LANKA IS SKY DIVING, AND IS AIMED AT THE WRONG PRIORITIES IN AN INFRASTRUCTURE-STRAVED ECONOMY.

YOUR CONTROVERSIAL RES REP WAS ALREADY GOT THE NEW VICE PRESIDENT—SAN RONALD HIS LITTLE FINGER AND HIGH GOVERNMENTAL AUTHORITIES ARE SCARED TO COMPLAIN OFFICIALLY ABOUT RES REP ANTICS IN COLOMBO OR WORLD BANK'S EXPERIMENTAL AND UNJUSTIFIED STRATEGY AND ROLE HERE, SO GOD HELP SRI LANKA AND ITS PEOPLE! IT IS YOUR BOUNDEN DUTY TO INTERVENE AND DO WHAT IS RIGHT MORALLY AND ETHICALLY BY A BORROWING COUNTRY, AND HELP TO AVOID ADVERSE REPERCUSSIONS.

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 6, 1997	
<b>OFFICE OF THE MANAGING DIRECTORS OPERATIONS</b>			
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James D. Wolfensohn, EXC		E-1227	
cc: Mr. Richard Frank, EXC		D11-097	
cc: Mr. John D. Shilling, OPRDR		D10-049	
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	Information	<input type="checkbox"/>	Recommendations
<b>RE: Guarantee Pipeline Update</b>			
<b>REMARKS:</b>			
<p style="margin-left: 40px;">Jim:</p> <p style="margin-left: 40px;">You had asked for an update..</p> <p style="margin-left: 40px;">Attachment</p>			
<b>FROM:</b> Gautam S. Kaji, EXC		<b>EXTENSION:</b> 81384	

The World Bank  
Washington, D.C. 20433  
U.S.A.

NINA SHAPIRO  
Manager  
Project Finance & Guarantees  
Tel. No. 202-473-1650  
Fax No. 202-477-0218

February 4, 1997

*W. Walfenstein*  
*Jim*  
*You had asked for an update*  
*2/5*  
*cc: Al Richman, Frank, A. Shulman*

Mr. Gautam Kaji

Gautam:

**Re: Guarantee Pipeline Update**

1. Per your request, please see the attached updated pipeline of guarantee operations. In addition to these 45 projects, we have a second more tentative list of about 25 prospective operations, for which we have received inquiries but are not yet in the Regions' pipelines given their early stage and uncertain prospects. Our analysis again shows that almost 60% of the transactions require some government action to further the process—either with regard to legislation or policy initiatives or project preparation, such as bid documents to select sponsors. About one in five require the private sector to take some action, while the Bank and/or the government together account for the balance of about 20%.

2. Since the last update (November 27, 1996) a number of activities have been completed or are near completion. On November 26, 1996, just before the last update, the Board had approved the Lebanon bond issue, the first transaction approved for FY97. The Initiating Memorandum for the Jorf Lasfar Power guarantee in Morocco was reviewed and endorsed at the Regional Operations Committee on January 15, 1997 and is expected to be submitted to the Operations Committee in the near future. The expected Board date is end-May 1997. Other projects expected for FY97 include the Russia-Ukraine Sea Launch guarantee which is in the final stages of negotiation, the Ukraine Pre-Export Facility, and a bond issue for a development bank in Turkey.

3. Much effort has also been expended on developing both an understanding of the potential use of guarantees with various governments as well as a framework within which the Bank and the government can promote private sector involvement in infrastructure through the use of the guarantee. Below are a few examples in major countries which have required intensive dialogue over long periods of time.

- In *Brazil* we have had some success recently where a number of projects are now progressing well after extensive initial discussions (about two years);

- In *Turkey* the government has announced that bidders for forthcoming private power projects may seek Bank guarantees when putting together their financial plans. This is in addition to other potential uses of the guarantee, such as the development bank transaction mentioned above;
- Our efforts in *Mexico* have continued and a forthcoming mission will discuss potential guarantee operations with a newly constituted government working group on the subject;
- In *Russia*, the government has expressed interest in two or three upcoming projects which will build on its experience with the Sea Launch Project;
- In *Philippines*, while the Region is likely to decide not to pursue a guarantee for the light rail project, the government has welcomed the Bank's input to restructuring the project and discussions are ongoing regarding support for the Manila water privatization.

4. Internally, we find enthusiasm for guarantees growing, but nonetheless spotty. In some cases, potential uses for Bank guarantees have been debated and incorporated in the country assistance strategy papers, while in others there is no mention at all, despite the Bank having received inquiries regarding specific transactions in these countries. For some of these countries, it appears that all activity related to the private sector, aside from technical assistance, is relegated to the IFC and MIGA. We are working to be involved at an earlier stage in the CAS process to rectify this.

5. On the private sector marketing and coordination side, we have continued our efforts to deepen the dialogue with prominent financial and industry groups. This is exemplified by our very successful session with ABN-AMRO bank of Holland last December. We are planning more of these detailed working sessions this spring which both serve to further the understanding of the guarantee with important industry players and allow us to review jointly specific potential transactions.

6. In addition to the work on transactions, we have also accelerated our policy and research efforts in recent months. We have reached the final stages of approval for the first ever operational policies and procedures circulars for Bank guarantees, and have completed a handbook on guarantee, primarily for task managers, which will be printed in brochure form this month. We feel that these two documents will provide substantially more transparency to staff on processing guarantee as well as better information on policy issues.

7. As part of our ongoing review of the project finance experience in key sectors, we have completed a review of private toll road projects, which is currently at the print shop and will be available for distribution within the next two weeks. We are substantially advanced on a similar review of water projects and have initiated an expanded update of a review of private power projects completed in 1994. We have also initiated an overview



of competitive bidding for concessions. This is an increasingly important area for us, given the high demand from governments for Bank advice on such undertakings and the potential for including a Bank guarantee in the bid documents as an option to potential bidders.

If you need further information, please let me know.

Nina Shapiro

A handwritten signature in black ink, appearing to read 'Nina Shapiro', written over the printed name.

Attachments

## World Bank: Pipeline of Guarantee Operations

## 1. Latin America and Caribbean

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
Panama	Panama Power Guarantee (PA-PA-45354)	Confirmed	1998	Partial Risk	IFC/MIGA possible	<i>Government</i> - guarantee to be incorporated into final bidding is under preparation.	Bid documents being revised by GOP.	J. Halpern / S. Babbar, T. Sugai
Colombia	El Vino-Puerto Salgar Toll Road (CO-PA-39082)	Confirmed	1998	Partial Risk	IFC (Indicated interest)	<i>Government</i> - decision on level of government support offered to bidders.	Tender documents to be released in Feb. 1997. Proposed Bank contingent loan needs management approval.	J. Irigoyen / S. Babbar, R. Al-Bader
Mexico	Housing Finance Project	Possible	1998 for Bank loan	Partial Credit	None	<i>Government</i> - discussion with GOM on use of guarantee; and to examine whether guarantee is needed.	Mission in Jan/Feb 1997 to review project concept.	R. Clifford/T. Matsukawa
Mexico	Natural Gas and Power (MX-PA-34160)	Possible	TBD	Partial Risk	None	<i>Government</i> - yet to accept the need to provide counter-guarantees to private investors in sector.	Discussion with Government to identify appropriate project.	J. Halpern / A. Mody, P. Vieillescazes
Dominican Republic	Private Power	Possible	TBD	Partial Risk	IFC/MIGA possible	<i>Government</i> - new government to decide on contractual structure for project and bid procedures.	Government to confirm its interest in Bank support; Bank-govt. to discuss project structure.	Gorrio, Osorio/Baughman
Argentina	Provincial Water Privatization (AR-PA-6046)	Possible	TBD	Partial Risk	None	<i>Government</i> - progress slowed due to difficulties in providing counter-guarantees for provincial governments.	Priority to be confirmed with GOA.	Y. Kutakura / A. Mody, A. Joshi-Ghani
Brazil	Gas Sector Development - (Bolivia-Brazil Pipeline) (BR-PA-6549)	Possible	1998	Partial Credit	IFC A/B-Loan possible	<i>Government/Bank</i> - possibility for partial credit guarantee being discussed; discussions on regulatory framework for gas sector required.	Operations Committee meeting expected by March 1997. Discussion with Brazil on use of partial credit guarantee and its amount.	De Franco / S. Babbar, E. Wang
Brazil	Health Reform	Possible	1998	Partial Credit	None	<i>Private sector/Government</i> - Government has requested private bank to present partial credit proposal. Since this will be a negotiated transaction, there is a need to ensure price competitiveness.	Government/Bank to review proposal from private bank.	A. Abrantes / E. Wang
Brazil	Federal Highways	Prospective	1998/99	Partial Risk	IFC/MIGA possible	<i>Government</i> - confirm use of Bank partial risk guarantee.	Feasibility study reviewed. Government to prepare concession arrangements; BNDES to assess financing possibilities.	J. Cellier/E. Wang
Brazil	IPP	Prospective	1999	Partial Risk	IFC/MIGA possible	<i>Government</i> - Regulatory framework not yet in place.	Ongoing discussion with Government.	De Franco/E. Wang

## 2. Africa

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
Namibia	Walvis Bay Industrial and Urban Development (NA-PA43349)	Possible	TBD	Partial Risk	None	<i>Government</i> - preparation of bidding/negotiation process. Government has general interest in guarantee; request yet to be made for guarantee support for the proposed project.	Advisors to analyze project feasibility in detail. Government to identify prospective private investors to receive bid documents.	A. Grudzinska / T. Sugai
South Africa	Maputo Corridor (ZA-TA-45043)	Possible	1998	Partial Risk/Partial Credit	IFC approached by winning bidder.	<i>Private Sector</i> - to propose use of guarantee. <i>Government</i> - formal request for guarantee support.	Selected sponsor has six months to secure financing.	J. Ahmad / D. Baughman, T. Sugai
South Africa	Port Elizabeth Water (ZA-TA-44313)	Possible	TBD	TBD	None	<i>Government</i> - no formal request for specific operation.	Municipality is in process of setting up an institutional and concession agreement to carry out the project.	J. Ahmad / D. Baughman, T. Sugai
Mauritius	Environment, Sewerage, and Sanitation	Possible	TBD	Partial Risk	None	<i>Government</i> - in discussion with Bank about request for guarantee.	Confirm applicability of guarantee; Government request.	
Zimbabwe	Power	Possible	1998	Partial Risk	None	<i>Government</i> - to examine whether guarantee is required.	Government discussions with Bank and private sector on scope of Bank support.	M. Sharma/ S. Babbar

## 3. Europe and Central Asia

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
Ukraine	Pre-Export Guarantee (UA-PA-9113)	Confirmed	1997	Partial Risk	None	<i>Government</i> - November 1996 Board date postponed because of government policy issues	Board Presentation in March 1997.	M. Lundell, A. Watkins/ K. Banerji
Russia/Ukraine	Sea Launch (7E-GU-44233)	Confirmed	1997	Partial Risk	None	<i>Government/Bank/Private Sector</i> - subrogation discussions.	Complete negotiations, expected March 1997.	O. Ruhl, A. Watkins /A. Mody
Croatia	Motorways	Confirmed	1997/98	Partial Credit and possibly Partial Risk	Under discussion	<i>Government/Bank</i> - financial structure of project and guarantee.	Discussions with Government in Jan. 1997 on financial and guarantee structure.	A. Watkins, O. Ruhl/ L. Grillet, P. Vieillescazes, R. Wong
Poland	A2 Motorway	Possible	1998	Partial Risk	IFC B-Loan possible	<i>Government</i> - guarantee law enabling Bank guarantees expected to be passed by 1st qtr. 1997.	Legislative action. Evaluation of concession bidding is in process. Govt. to award concession by early 1997.	G. Smith/R. Wong
Poland	Power Station Rehabilitation (PL-PA-45201)	Possible	1998	Partial Credit	None	<i>Government</i> - guarantee law enabling Bank guarantees expected to be passed by 1st qtr. 1997.	Legislative action. Detailed financial analysis and market sounding of commercial banks.	R. Benmessaoud / R. Wong
Hungary	M7 Motorway	Possible	1998	Partial Risk	IFC B-Loan possible	<i>Government</i> - bidding on hold pending Government review of motorway concession. Govt. is reconsidering certain proposed alterations to the technical and financial specifications of the project to facilitate private finance.	Bidding for concession expected to be completed in 1st qtr. 1997.	A. Watkins / R. Wong, A. Mody
Russia	Petroleum Joint Venture (RU-EC-43435)	Hold	TBD	Partial Risk	IFC B-loan possible	<i>Government/Private Sector</i> - passage of production sharing agreement legislation; discussion among sponsors about financing structure.	Legislative action. Bank, financial advisor to review second draft of guarantee term sheet.	C. McPherson / E. Wang
Russia	Input Guarantee	Possible	1998		None	<i>Bank</i> - project on hold since 1996 OC review; question of extent of guarantee coverage.	Pace of work depends on Sea Launch and Ag. Sector Adjustment Loan.	L. Engstrand
Turkey	Guarantee for Development Bank	Possible	1997	Partial Risk	IFC B-loan possible. MIGA may act as an arbitrator.	<i>Government/Bank</i> - agree on scope of guarantee.	Guarantee Agreement to be drafted. Ongoing discussions with GOT.	T. Uyanik / T. Sugai

## 4. East Asia and Pacific

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
Philippines	Manila Water Works and Sewerage System (PH-PE-36043)	Possible	1998	Partial Risk	IFC advising Government on privatization	GOP to confirm the use of guarantee.	Selected sponsors to propose use of guarantee; Government to request guarantee.	A. Altaf/A.Mody, A.Joshi-Ghani
Philippines	Manila Third Light Rail Transport (LTR3)	Possible	1998	Partial Credit	None	Bank - environmental and resettlement issues may affect timing of project.	Project agreements to be finalized.	J. Sopher / A. Mody
Lao P.D.R.	Nam Theun Power (LA-PA-4206)	Possible	1999	Enclave Partial Risk	IFC A/B-loan	Bank - Board approval of enclave structure; Bank/Government - carrying out studies of environment and macro economic impact.	Board to review enclave paper in February 1997. Bank to review results of studies.	J. Shivakumar / S. Babbar
China	Tuoketuo Thermal Power Project (CN-PA-3658)	Prospective	1997 for Bank loan	Partial Credit	None	Bank/Government - guarantee will be considered only if needed at the time of financing.	GOC will seek cofinancing offers without guarantees in FY 1998.	N. Berrah / T. Matsukawa
China	Waigaoqiao Thermal Power Project (CN-PE-4485)	Prospective	1997 for Bank loan	Partial Credit	None	Bank/Government - guarantee will be considered only if needed at the time of financing.	GOC will seek cofinancing offers without guarantees in FY 1998.	E. Sun / T. Matsukawa

## 5. South Asia

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
India	Orissa Power Project (IN-PA-35170)	Possible	1998	Partial Risk	IFC possible	<i>Bank</i> - need for new power generation to be confirmed.	Draft bid documents are being reviewed.	K. Nyman / F. Mazhar
India	Barsingher Lignite Mine and Power Project	Possible	1999	Partial Risk	IFC possible	<i>Government</i> - eligibility is uncertain due to reform program of state government (Rajasthan)	Discussions are in abeyance.	M. Manzo / F. Mazhar
Pakistan	Power Transmission Guarantee (IN-PA-10477)	Possible	1998	Partial Risk	None	<i>Bank</i> - US\$80 million Partial Risk Guarantee. Formal request from GOP expected.	Discussions ongoing with GOP and the sponsors.	P. Ljung / F. Mazhar
Pakistan	Freight Transport (PK-PA-10518)	Possible	1998	Partial Risk	IFC possible	<i>Government/Bank</i> - Bids submitted in October 1996, but award is delayed due to current political climate.	Government to award concession. Sponsors to propose guarantee to the Bank.	J. Tillman / R. Al-Bader
Pakistan	Lahore-Islamabad Motorway	Possible	2000	TBD	IFC possible	<i>Government</i> - discussions at early stage.	Ongoing discussions.	A. Mody
Pakistan	Freight Transport II	Possible	TBD	Partial Risk	IFC possible	<i>Government</i> - discussions at early stage and dependent on success of first project.	Ongoing discussions.	J. Tillman / R. Al-Bader
Pakistan	Rousch Power Project	Possible	1999	Partial Risk	IFC possible	<i>Government</i> - discussions at early stage.	Concept Paper to be prepared.	F. Mazhar

## 6. Middle East and North Africa

<u>Country</u>	<u>Project</u>	<u>Operational Status</u>	<u>FY</u>	<u>Type of Guarantee</u>	<u>Bank Group Linkages</u>	<u>Issues</u>	<u>Next Steps</u>	<u>Task Manager/CAPPF Staff</u>
Lebanon	Power Sector Restructuring (LB-PA-36087)	Board approved 11/96	1997	Partial Credit	None	None	Bond issue expected February/March 1997.	R. Skelton / A. Joshi-Ghani, R. Wong
Lebanon	Awali Beirut Water Conveyor (LB-LL-45101)	Confirmed	1998	Partial Risk	IFC possible	<i>Government</i> - request for guarantee.	Government to select advisors to prepare bid documents.	J. Saghir / A. Joshi-Ghani
Morocco	Jorf-Lasfar Power (MA-PA-5464)	Confirmed	1997	Partial Risk	None	<i>Government/Private Sector</i> - completion of project legal agreements.	Discussions with Government and sponsors on guarantee coverage.	J. Larieu/P. Vieillescazes, L. Grillet
Morocco	Morocco Industrial Infrastructure (MA-PA-40893)	Confirmed	1998	Partial Risk	IFC possible	<i>Government/Private Sector</i> - need for and scope of guarantee to be determined.	Bid opening March 1997; sponsors to request guarantee in bids.	H. Alavi / P. Vieillescazes, L. Grillet
Egypt	Private Power Generation	Possible	1998	Partial Risk	IFC issued letters of support to potential sponsors. MIGA possible.	<i>Government</i> - formulation of project agreements; Bank will require letter of sector development policy from Government.	Government request for guarantee and complete draft bid documents (March 1997).	M. Heitner / D. Baughman
Jordan	Disi Amman Water Conveyor	Possible	TBD	Partial Risk	IFC/MIGA possible	<i>Government/Bank</i> - confirmation of feasibility; delay due to large cost and complex structure.	Bank to review feasibility study.	A. Macoun/A. Joshi-Ghani
Jordan	Amman Waste Water Treatment Plant	Possible	TBD	Partial Risk	IFC/MIGA possible	<i>Government</i> - determination of commercial arrangements (role of private sector) and applicability of guarantee.	Discussions with Government (May 1997) on project structure and possible use of guarantee.	A. Macoun/A. Joshi-Ghani
Morocco	Natural Gas Development (MA-PA-5509)	Possible	Hold/TBD	Partial Risk	None	<i>Government</i> - yet to confirm guarantee use for this project.	Review of Government's investment program in power generation.	A. Ferroukhi / P. Vieillescazes, A. Joshi-Ghani
Yemen	Aden Port (RY-PA-36002)	Possible	1998	Enclave Partial Risk	IFC/MIGA possible	Bank - Board approval of enclave structure; <i>Government/Bank/Private Sector</i> : discussions ongoing.	Prepare Initiating Memorandum.	G. Tharakan / F. Mazhar, T. Sugai

THE WORLD BANK

Managing Director, Operations

W. Wolfenden

Jim

In response to your  
query of Jan 12 pls  
see attached in respect  
of the numerous delivery  
of inspection panel  
mail.

As to the substance  
of the complaint we  
have already responded.  
This was an adjustment  
loss. We have not  
destroyed bundles when  
boat did not carry out  
actions agreed (the subject  
of the complaint). The Bank  
has no other remedies.

GAUTAM S. KAJI

Gautam



FORM NO. 709  
(8-84)

THE WORLD BANK/IFC

ROUTING SLIP		DATE: 1/17/96
FROM THE REGIONAL VICE PRESIDENT		
NAME		ROOM NO.
Gautam Kaji		
APPROPRIATE DISPOSITION		NOTE AND RETURN
APPROVAL		NOTE AND SEND ON
COMMENT		PER OUR CONVERSATION
FOR ACTION		PER YOUR REQUEST
INFORMATION		PREPARE REPLY
INITIAL		RECOMMENDATION
NOTE AND FILE		SIGNATURE
REMARKS:  Per our conversation.		
FROM: Joe Wood		

① DJW  
② File

THE WORLD BANK/IFC/M.I.G.A.

# OFFICE MEMORANDUM

DATE: December 12, 1996

TO: Mr. Richard E. Bissell, Chairman, IPN

FROM: D. Joseph Wood, <sup>SA1</sup>Vice President, South Asia

EXTENSION: 81429

SUBJECT: **Request for Inspection**  
**Bangladesh: Jute Sector Adjustment Project**

Thank you for sending me a copy of your November 25 memorandum to Harold Messenger reporting the erroneous delivery and loss of mail addressed to the Inspection Panel. I regret to inform you that despite a thorough search by SA1 the incoming documents have not been found. We surmise that the persons in SA1 who received the documents did not examine them closely and mistakenly assumed that they were copies of documents sent to the Inspection Panel. But, in fact, we simply do not know what actually occurred in this unfortunate situation.

I have seen a copy of Mrs. San Jose's memorandum to you explaining that the documents were mistakenly sent to SA1 from the Mail Room. I am pleased to see that Mail Room staff will now maintain a log of documents sent to the Inspection Panel and that care will be exercised to ensure that no further mistakes of this type are made.

Ms. Nishimizu, the Director of SA1, has instructed staff in her Department to forward to your office any correspondence received addressed to the Inspection Panel or its members. Perhaps the only positive thing from this regrettable experience is that staff have been strongly reminded that mail can occasionally be delivered improperly and they should be alert to ensure that action is taken to identify errors and promptly get the correspondence to the correct addressee.

cc: Messrs./Mmes. James D. Wolfensohn  
Ibrahim F. I. Shihata  
Pilar J. San Jose  
Mieko Nishimizu  
Harold W. Messenger  
Lorene Yap

# OFFICE MEMORANDUM

DATE: November 27, 1996

TO: Mr. Harold W. Messenger, Acting Vice President, South Asia Region

FROM: Mieko Nishimizu, Director, SA1

EXTENSION: 80600

SUBJECT: **BANGLADESH: Request for Inspection of Jute Sector Adjustment Project**

On November 25, Mr. Bissell wrote to you and suggested that SA1 investigate what happened to the request for inspection of the Jute Sector Adjustment Project.

We are very concerned that the Inspection Panel only received the inspection request after a long delay and are taking steps both to figure out what actually happened and to the best of our ability prevent it from happening again.

Mr. Bissell's memo refers to a document SA1CO received on August 15. As SA1CO does not have a log of incoming mail, we presume but cannot confirm that this was indeed the inspection request.

In terms of what we do know as of today, Ms. Velilla, Admin. Sec. to Lorene Yap, Chief, SA1CO, signed for a special delivery on August 15 and vaguely recalls showing a letter to Ms. Yap which referred to the inspection panel request for the Jute Sector Adjustment Project and indicating she would forward the letter to the SA1 Private Sector Development and Finance Division (SA1PF), the managing division for the project.

Whenever SA1CO receives project-related documents, which happens occasionally, it is the standard practice to convey those documents to the responsible sector division. Accordingly Ms. Velilla would have forwarded the document to SA1PF, as she did when she received the Jamuna request and sent it on to Ms. Robinson's office.

The SA1PF division, which logs incoming mail requiring action, does not have a record of the document being received.

We have searched for the letter in files in SA1CO, SA1PF, and regional files but have found no trace of it. We are continuing to seek other information and will report to you anything we learn.

Please let me reiterate that we very much regret this incident. To prevent this from recurring, I am instructing staff in the future to forward all correspondence addressed to the Inspection Panel to that office immediately unless it is clear that we have only been copied on the material.

cc: Messrs./Mmes. Yap o/r, Uy (SA1); Mead (LEG)  
Mr. Wood o/r

# OFFICE MEMORANDUM

DATE: November 27, 1996

TO: Mr. Richard E. Bissell, Chairman, IPN

FROM: <sup>dm</sup>Harold W. Messenger, Acting Regional Vice President, SAS

EXTENSION: 32000

SUBJECT: Request for Inspection  
Bangladesh: Jute Sector Adjustment Project

Thank you for your memorandum of November 25, 1996, informing me that a Request for Inspection relating to Credit 2567-BD addressed to the Chairperson, Office of the Inspection Panel arrived in the Bank in August and was delivered to a person in SA1 rather than to the addressee. Further, the document was never received in the Office of the Inspection Panel.

I agree that this is a very serious matter and I have already initiated an investigation into what happened. I have spoken with Mrs. San Jose who will explore why the document was not delivered directly to the addressee, the Chairperson, Office of the Inspection Panel. Staff in SA1 are attempting to determine what happened to the document after it was received in the department on August 15. Ms. Yap is presently away from the office. I will speak with her as soon as possible. I will get back to you as soon as I am able to determine the facts.

cc: Mr. James D. Wolfensohn  
Mr. Ibrahim F. I. Shihata  
Mrs. Pilar J. San Jose  
Mr. Joseph Wood (o/r)  
Ms. Mieke Nishimizu  
Ms. Lorene Yap

# OFFICE MEMORANDUM

DATE: November 25, 1996

TO: Mr. Harold W. Messenger, Acting Regional Vice President

FROM: Richard E. Bissell, Chairman, IPN *REB*

EXTENSION: 82604

SUBJECT: **Request for Inspection  
Bangladesh: Jute Sector Adjustment Project**

On August 6, 1996, a group of citizens of Bangladesh signed a Request for Inspection relating to Credit 2567-BD ("Jute Sector Adjustment Credit").

The Request was clearly addressed to the Chairperson, Office of the Inspection Panel, and sent via DHL to the Bank offices in Washington. The Panel never received that document.

On November 13, 1996 the Requesters contacted the Inspection Panel again, inquiring about the processing of their Request. It was only then that the Panel learned about the existence of the Request. We have now received a new signed copy of the Request -- which I am registering today -- and sufficient evidence to permit the tracing of the original document.

The original Request was delivered to the Bank's mail room on August 14, 1996 at 2:31 p.m., and it was forwarded to your Region. According to the Mail Room records, the Request was delivered to Ms. Lorene Yap, SAICO, Department 24610, on August 15, 1996 at 9:05 a.m.

I am sure that you will agree that the fact that a Request clearly addressed to the Panel was not delivered to it is a serious violation of the integrity and independence of the Inspection Panel process. I will request an investigation on: (a) why this document was not sent directly to the Panel and, since this is not the first case, (b) whether there are other documents that have been addressed to the Panel that have been delivered to other offices in the Bank. At the same time, I would like to request that you conduct a similar investigation on what happened with the original Request which, according to Bank records, was delivered to one of your staff.

As a result of the gravity of the matter, I am sending copies of this Memorandum to the Office of the President, the Senior Vice President and General Counsel and the Director GSD.

cc: Mr. James D. Wolfensohn  
Mr. Ibrahim F. I. Shihata  
Mrs. Pilar J. San Jose  
Mr. Joseph Wood (o/r)  
Ms. Lorene Yap

# OFFICE MEMORANDUM

DATE: December 9, 1996

TO: Mr. Richard E. Bissell, Chairman, Inspection Panel

FROM: Pilar J. San Jose, Director, GSD



EXTENSION: 80168

SUBJECT: Handling of Mail

1. This responds to your November 27 note on your concerns with regard to the handling of mail addressed to the Inspection Panel, particularly the two cases cited in your letter--one on March 30, 1995 inadvertently forwarded to the Africa Region; and one on August 17, 1996 inadvertently forwarded to the South Asia Region.
2. By way of background, the Mail Room, which receives over seven million pieces of mail annually (or an average of almost thirty thousand per workday), has instructions to send mail immediately to the addressee noted on the envelope. Where the addressee (specific person--by name or by position) is not given, i.e., in cases where the mail is simply addressed to "The World Bank," the staff in the Mail Room open the envelopes and make a determination on the likely destination of the material (correspondence, brochure, etc.) based on content. Thus, if the envelope is marked "Chairman, Inspection Panel" or simply "Inspection Panel," the piece is to be sent immediately to your office. The two documents in question, which were not sent directly to your offices were cases of mis-delivery. Our review of the processes in place in the Mail Room yield no evidence of malicious intent or fraud.
3. The volume of incoming mail processed each day precludes us from noting down the addressee of each piece of incoming mail. Hence, we are unable to provide you with information on whether there have been other documents which may have been addressed to the Panel and may have been inadvertently misdelivered to other parts of the Bank.
4. One way to preclude any future errors in handling is, perhaps, for the Inspection Panel to establish a separate postal address and receive its mail separate from the mail that traditionally comes to the Bank. Should you wish to explore this further, the Mail Room managers will be glad to work with your designated staff on this alternative.
5. Meanwhile, I have instructed the Mail Room staff to maintain a log of all incoming mail addressed to you or your office. This will help, in our view, to raise consciousness of the importance of the documents going to your office while your postal address remains the same as the Bank's mailing address. It will also allow us to provide this list to you to make sure your records and ours are in agreement.

December 9, 1996

6. I regret the past misdeliveries and trust that the additional precautions suggested (para 4) and taken (para 5) with regard to incoming mail for the Inspection Panel will minimize the possibility of a recurrence.

bcc.: Messrs./Mmes. Messenger, Bloodworth, Warner, Descaire

# THE WORLD BANK GROUP

INT 2596

ROUTING SLIP		DATE: January 12, 1997	
NAME		ROOM. NO.	
Mr. Gautam Kaji		D 10-065	
<input type="checkbox"/>	URGENT	<input type="checkbox"/>	PER YOUR REQUEST
<input type="checkbox"/>	FOR COMMENT	<input type="checkbox"/>	PER OUR CONVERSATION
<input checked="" type="checkbox"/>	FOR ACTION	<input type="checkbox"/>	NOTE AND FILE
<input type="checkbox"/>	FOR APPROVAL/CLEARANCE	<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FOR SIGNATURE	<input type="checkbox"/>	PREPARE REPLY
<input type="checkbox"/>	NOTE AND CIRCULATE	<input type="checkbox"/>	NOTE AND RETURN
<b>RE: Note from Mr. Ibrahim Shihata Forwarding a Copy of a Memorandum from Mr. Richard Bissell, IPN to Mr. Harold Messenger - November 25, 1996                  "Request for Inspection - Bangladesh: Jute Sector Adjustment Project"</b>			
<b>REMARKS:</b>  Gautam:  For your ease of reading, following is a "translation" of JDW's remarks to you on the attached correspondence:  <div style="border: 1px solid black; border-radius: 50%; padding: 10px; margin: 10px auto; width: 80%;"> <p style="text-align: center;"><i>"For action. Will you also let me know what you think about the substance of their request?"</i></p> </div> Thank you.			
<b>FROM</b> Atsuko Horiguchi		<b>ROOM NO.</b> E 1229	<b>EXTENSION</b> 84256



THE WORLD BANK

ROUTING SLIP		DATE:
FROM THE OFFICE OF THE SENIOR VICE PRESIDENT AND GENERAL COUNSEL		
NAME		ROOM NO.
Mr. Wolfenbun		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
COMMENT	PER OUR CONVERSATION	
FOR ACTION	PER YOUR REQUEST	
INFORMATION	PREPARE REPLY	
INITIAL	RECOMMENDATION	
NOTE AND FILE	SIGNATURE	
REMARKS:		
<p>I believe Mr. Bissel is right. This matter should be seriously investigated.</p> <p><i>Write you <del>also</del> also let me know what you think about the out lance? over request?</i></p>		
FROM:	ROOM NO:	EXTENSION:
Heathim		

KASJ  
for An...  
1/2

THE INSPECTION PANEL

# OFFICE MEMORANDUM

1/11  
Int. 2592

① HA

96-11-25 17 President Has Seen

= YI

DATE: November 25, 1996

TO: Mr. Harold W. Messenger, Acting Regional Vice President

FROM: Richard E. Bissell, Chairman, IPN *reb*

EXTENSION: 82604

SUBJECT: **Request for Inspection**  
**Bangladesh: Jute Sector Adjustment Project**

On August 6, 1996, a group of citizens of Bangladesh signed a Request for Inspection relating to Credit 2567-BD ("Jute Sector Adjustment Credit").

The Request was clearly addressed to the Chairperson, Office of the Inspection Panel, and sent via DHL to the Bank offices in Washington. The Panel never received that document.

On November 13, 1996 the Requesters contacted the Inspection Panel again, inquiring about the processing of their Request. It was only then that the Panel learned about the existence of the Request. We have now received a new signed copy of the Request -- which I am registering today -- and sufficient evidence to permit the tracing of the original document.

Nov 26 10 40

The original Request was delivered to the Bank's mail room on August 14, 1996 at 2:31 p.m., and it was forwarded to your Region. According to the Mail Room records, the Request was delivered to Ms. Lorene Yap, SA1CO, Department 246/10, on August 15, 1996 at 9:05 a.m.

I am sure that you will agree that the fact that a Request clearly addressed to the Panel was not delivered to it is a serious violation of the integrity and independence of the Inspection Panel process. I will request an investigation on: (a) why this document was not sent directly to the Panel and, since this is not the first case, (b) whether there are other documents that have been addressed to the Panel that have been delivered to other offices in the Bank. At the same time, I would like to request that you conduct a similar investigation on what happened with the original Request which, according to Bank records, was delivered to one of your staff.

As a result of the gravity of the matter, I am sending copies of this Memorandum to the Office of the President, the Senior Vice President and General Counsel and the Director GSD.

cc: Mr. James D. Wolfensohn  
Mr. Ibrahim F. I. Shihata ✓  
Mrs. Pilar J. San Jose  
Mr. Joseph Wood (o/r)  
Ms. Lorene Yap

# OFFICE MEMORANDUM

Nov 27 4 45 PM '96

Int. 2621  
① HA for AH

DATE: November 27, 1996

TO: Mr. Richard E. Bissell, Chairman, IPN

FROM: Harold W. Messenger<sup>HW</sup>, Acting Regional Vice President, SAS

EXTENSION: 32000

SUBJECT: **Request for Inspection**  
**Bangladesh: Jute Sector Adjustment Project**

Thank you for your memorandum of November 25, 1996, informing me that a Request for Inspection relating to Credit 2567-BD addressed to the Chairperson, Office of the Inspection Panel arrived in the Bank in August and was delivered to a person in SA1 rather than to the addressee. Further, the document was never received in the Office of the Inspection Panel.

I agree that this is a very serious matter and I have already initiated an investigation into what happened. I have spoken with Mrs. San Jose who will explore why the document was not delivered directly to the addressee, the Chairperson, Office of the Inspection Panel. Staff in SA1 are attempting to determine what happened to the document after it was received in the department on August 15. Ms. Yap is presently away from the office. I will speak with her as soon as possible. I will get back to you as soon as I am able to determine the facts.

cc: Mr. James D. Wolfensohn ✓  
Mr. Ibrahim F. I. Shihata  
Mrs. Pilar J. San Jose  
Mr. Joseph Wood (o/r)  
Ms. Mieko Nishimizu  
Ms. Lorene Yap

Notice of Registration

November 25, 1996

TO: Mr. Kh. Raisuddin Ahmed  
Managing Director  
Mashriqi Jute Mills Ltd.  
93, Motijheel C.A. (8th Floor)  
Dhaka-1000  
Bangladesh

TO: Mr. James D. Wolfensohn  
President  
International Development Association  
Room E-1227

[by hand against confirmation]

cc: The Executive Directors  
International Development Association

Nov 10 41

Int. 2596

HA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
THE INSPECTION PANEL

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

Telephone: (202) 458-5200  
Fax : (202) 522-0916  
Cable Address: INTBAFRAD

Richard E. Bissell  
Chairman

IPN REQUEST RQ96/3

November 25, 1996

MEMORANDUM TO THE PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION

**SUBJECT: Request for Inspection  
Bangladesh: Jute Sector Adjustment Credit 2567-BD  
Notification of Registration**

In accordance with paragraph 17 of IDA Resolution No. 93-6 (the "Resolution") and paragraph 17 of the Inspection Panel's Operating Procedures (the "Procedures"), I hereby notify you that the Inspection Panel (the "Panel") received on November 13, 1996 a Request for Inspection, dated August 6, 1996 (the "Request") related to the above-mentioned project.

On the basis of the information contained in the Request, I am satisfied that the Request *prima facie* does not appear to be barred from Panel consideration pursuant to the terms of the Resolution and the Procedures. Accordingly, as provided in paragraph 17 of the Procedures, I have today registered the Request in the Panel Register. Enclosed are:

1. an original of the Notice of Registration; and
2. a copy of the Request with Annexes.

In accordance with paragraph 18 of the Resolution and paragraph 18(d) of the Operating Procedures, IDA Management is hereby notified that it must provide the Panel no later than December 27, 1996 with written evidence that it has complied, or intends to comply with the relevant policies and procedures in the implementation of the above-referenced project. The essential criteria for the response to the Request are set out in paragraph 33 of the Procedures.

*Richard E. Bissell*

Memorandum to the President of IDA

November 25, 1996

Enclosures

1. Request for Inspection and Annexes

TO: Mr. James D. Wolfensohn  
President  
International Development Association  
Room E-1227

[by hand against confirmation]

cc: The Executive Directors  
International Development Association

# THE INSPECTION PANEL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

Telephone: (202) 458-5200  
Fax : (202) 522-0916  
Cable Address: INTBAFRAD

IPN REQUEST RQ96/3

November 25, 1996

## NOTICE OF REGISTRATION

Dear Sir:

***Re: Request for Inspection - Bangladesh: Jute Sector Adjustment Credit 2567-BD***

The Inspection Panel (the "Panel") received on November 13, 1996, a Request for Inspection (the "Request") dated August 6, 1996 from a group of citizens of Bangladesh who state that they are shareholders/CEOs of private sector jute mills (the "Requesters") and claim that their rights/interests have been adversely affected by acts and omissions of the International Development Association ("IDA"). The Requesters claim that IDA's omissions and failures relate to the design and implementation of the above-referenced project, and are a result of alleged violations of various unspecified provisions of IDA policies and procedures--which seem to relate to ODs 8.60, 13.05 and 13.40--as well as of IDA's failure to require the Borrower to comply with the conditions of the Development Credit Agreement for this operation.

In accordance with paragraph 17 of the Panel's Operating Procedures (the "Operating Procedures"), I am notifying you that I have, on November 25, 1996, which is also the date of the dispatch of this notice, registered the Request in the Inspection Panel Register.

All communications with the Requesters in connection with the Request will be sent to Mr. Kh. Raisuddin Ahmed at the address listed below.

In accordance with paragraph 18 of IDA Resolution No. 93-6 and paragraph 18(d) of the Operating Procedures, IDA Management is hereby notified that it must provide the Panel no later than December 27, 1996 with written evidence that it has complied, or intends to comply with the relevant policies and procedures in the implementation of the above-referenced project. The essential criteria for the response to the Request are set out in paragraph 33 of the Operating Procedures.

The Request has been assigned IPN Request Number RQ96/3.

Sincerely yours,



Richard E. Bissell  
Chairman

## THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 17, 1997	
<b>OFFICE OF MANAGING DIRECTORS</b>			
<b>OPERATIONS, POLICIES AND PROGRAMS</b>			
NAME		ROOM. NO.	
Mr. James D. Wolfensohn, President		E12-27	
CC: Mr. Joe Wood Mr. Callisto Madavo		E10-071 J5-097	
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	For Information	<input type="checkbox"/>	Recommendations
<b>RE: The Special Program of Assistance – Fourth Phase (SPA-4) Launching December 16-19 in Paris</b>			
<b>REMARKS:</b>			
For your convenience, Mr. Kaji's comments on the attached are as follows:			
Jim:			
<ol style="list-style-type: none"> <li>1. This may be of interest to you. We don't repeat the good news on Africa often enough!</li> <li>2. You may want to consider attending an SPA meeting if held in Africa.</li> <li>3. Joe Wood could usefully look at how "SPA" would be evaluated.</li> </ol>			
<b>FROM:</b> Gautam S. Kaji		<b>EXTENSION:</b> 81384	



# OFFICE MEMORANDUM

DATE: January 13, 1997

TO: Gautam S. Kaji, EXC

FROM: Callisto E. Madavo, AFRVP *EM-*

EXTENSION: 82856

SUBJECT: The Special Program of Assistance -- Fourth Phase (SPA-4) Launching  
December 16-19 in Paris

*A. Wolfson*  
 1/14/97  
 This may be interesting to you. We. about 1000 people, across in Africa often enough!  
 You may want to consider attending in Africa. SPA meeting if held in Africa. could usefully to book, at least be evaluated.  
 cc: Joe Wood, Cal Mack

As you are aware, we convened a donors' meeting of the Special Program of Assistance for Africa (SPA) from December 16-19 in Paris under my chairmanship. The meeting, which launched the fourth phase of the SPA partnership, was very successful. The atmosphere of the meeting was quite positive, reflecting an affirmation of the importance of the programs supported by the SPA as well as of the partnership itself. Although the primary focus of the meeting was to mobilize resources for SPA-4 (1997-1999), there were some rich substantive discussions as well.

The recent improvements in economic performance seem to have made a deep impression on the donors. Some highlights: The median GDP growth rate among the SPA countries over the past three years was 4 percent (compared with 1 percent during the previous three years). In 1996, more than half of the SPA countries had growth rates of at least 5 percent, the highest in more than a decade. Fiscal deficits have come down from 10.9 percent of GDP in 1993 to an estimated 6.9 percent last year. Part of this improvement may have been due to more favorable external conditions (e.g., better growth in OECD countries), but there was recognition that the reforms supported through the SPA have enabled countries to take advantage of the improved international economic environment. There was a feeling that at least for the better performers, a platform has been created for further acceleration of growth.

The major outcomes of the meeting were:

- Initial indications from the SPA donors that about \$5 billion equivalent in highly concessional quick-disbursing assistance would be available to help finance economic reform programs of performing countries during the SPA-4 period. This amount is in line with what was provided by the donors in SPA-3 in terms of signed commitments (\$5.2 billion), and roughly matches the adjustment financing expected to be provided by the Bank and Fund over the next three years (assuming good performance by SPA countries). This level of support is especially encouraging in light of shrinking aid budgets and declining constituency support for adjustment assistance. I have indicated elsewhere how you and Caio might assist us with some of the donors on this point. Although our projected financing target was about \$6 billion, we have reasonable confidence that the financing needs of the eligible countries can be met, given the

assumption underlying the target figure that all 31 eligible countries would be on-track. Aggregate requirements are likely to be adjusted as we monitor actual country performance during the course of SPA-4. Requirements will also be affected by the HIPC Initiative as it is implemented.

- The SPA-4 agenda. The donor partners endorsed the centrality of strengthening the linkages between reform, growth, poverty reduction and gender concerns. Much of the collaborative work with SPA donors on poverty monitoring and developing recommendations for action to reduce poverty will continue to be carried out in the SPA Working Group on Poverty and Social Policy. The Africa Region's strategy for incorporating poverty and gender concerns in its work was viewed favorably by the partners, but they saw much that still needed to be done to translate the strategy into action. I will be calling on our AFR staff to take up this challenge through specific actions in project support, economic and sector work, and regional partnerships.
- Independent evaluation of the SPA. It was decided that an independent evaluation of the SPA would be valuable as the partnership approaches a decade of existence. A couple of motivating factors were involved here. First, many donors wanted the record of the SPA to be more widely understood. Second, the donors wanted a mechanism to help us sort out what should be changed, eliminated, improved in our efforts to strengthen aid effectiveness. The initial TOR, drafted by Sweden, proposed that OED manage the study. Bob Picciotto attended the discussions in Paris and was thoughtful and constructive. OED has now agreed to manage the evaluation of the SPA. It will first put together a first-class international team, in consultation with a group of SPA donors and eminent Africans.
- Higher impact adjustment lending. Two donor-led initiatives to develop new approaches for supporting African economic reform were presented and will be discussed further during SPA-4. UK-ODA is piloting an approach in two countries to provide adjustment support via the government's budget (rather than through financing of imports). There is growing interest in using the budget as a primary organizing framework for all adjustment assistance. The plenary also discussed an EC proposal on conditionality -- which had been extensively revised with our assistance -- and authorized a pilot in Burkina Faso. All donors agreed that this exercise was not about a softening or abandonment of conditionality, but rather about a possible reformulation and monitoring of conditionality, in the spirit of the Bank's own work on developing more flexible instruments.
- Sector Investment Programs. A full-day seminar looked at the experience with Sector Investment Programs (SIPs), focusing on four examples of ongoing SIPs which were presented by the African officials who manage them. A consensus is growing in the SPA that the SIP approach is an improvement over the traditional investment project, given that it promotes donor coordination in support of a government budget, is government led, is linked with macro policy, involves the stakeholders, and contains a focus on capacity building.

Looking ahead

Several currents ran through the discussions that are worth mentioning. First, there was a strong feeling that much of Africa is turning around, reflected not only in economic performance, but in terms of African ownership of reform and quality of leadership. Despite the recent turnaround in many African countries, the SPA partners also accepted the proposition that more needed to be done for Africa to make major inroads in reducing poverty and to be integrated into the global economy. The African voice has become more important in our deliberations. Invited African guests -- Benno Ndulu, Executive Director of the African Economic Research Consortium, and Ahmedou Ould-Abdallah, Executive Secretary of the Global Coalition for Africa -- echoed this challenge at our meeting. With a view to continuing to seek African views and perspectives on the deliberations of the SPA, I raised the possibility of having a future SPA meeting in Africa and hearing from the continent's political leadership. We will also plan greater involvement of African Executive Directors' offices in SPA meetings.

Second, commitment to the SPA partnership is strong. Despite constraints, donors are doing their best to sustain the provision of resources for African development. Intellectual contributions to SPA work continue to be robust. And much of our discussions continue to focus on the business of aid coordination to improve and harmonize donor practices and policies.

Third, the SPA is a learning mechanism. Employing this concept, I've suggested that the SPA look at "new instruments" to support reform and development. This would include further work on SIPs, as well as monitoring the results of ongoing work in the SPA, the OED evaluation of the SPA itself, and the EC pilot on conditionality. All of this work would culminate in a mid-term review in about 12-18 months which could point the way to possible adjustments in our SPA program.

I will keep you informed of future developments.

cc: Messrs. SSandstrom, CKoch-Weser (EXC); ABourhane (EDS13), JCarvalho (EDS14), J-LSarbib, KJaycox (AFRVP); Kcleaver (AFTKT).

JDW File.

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 17, 1997	
<b>OFFICE OF MANAGING DIRECTORS</b>			
<b>OPERATIONS, POLICIES AND PROGRAMS</b>			
<b>NAME</b>		<b>ROOM. NO.</b>	
Ms. Atsuko Horiguchi, Assistant to the President		E12-29	
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	For Information	<input type="checkbox"/>	Recommendations
<b>RE: Your Memorandum of December 23 regarding your visit to New Zealand - December 9 and 10, 1996</b>			
<b>REMARKS:</b>			
For your convenience, Mr. Kaji's comments on the attached are as follows:			
<p>"Please tell JDW that I am writing to ADB and copying to US Australia Chairs that our new structure is not to create overlap or compete - just provide better integrated services to the Pacific Islands which they are demanding. Will copy letter to your office."</p>			
<b>FROM:</b>		<b>EXTENSION:</b>	
Gautam S. Kaji		81384	

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 8, 1997	
NAME		ROOM. NO.	
Mr. Richard Frank		D 11-097	
cc: Mr. Gautam Kaji		D 10-065	
<input type="checkbox"/>	URGENT	<input type="checkbox"/>	PER YOUR REQUEST
<input type="checkbox"/>	FOR COMMENT	<input type="checkbox"/>	PER OUR CONVERSATION
<input type="checkbox"/>	FOR ACTION	<input type="checkbox"/>	NOTE AND FILE
<input type="checkbox"/>	FOR APPROVAL/CLEARANCE	<input checked="" type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FOR SIGNATURE	<input type="checkbox"/>	PREPARE REPLY
<input type="checkbox"/>	NOTE AND CIRCULATE	<input type="checkbox"/>	NOTE AND RETURN
RE: Your Memorandum of December 23 regarding your visit to New Zealand - December 9 and 10, 1996			
<p><b>REMARKS:</b></p> <p>Richard:</p> <p>Please see JDW's comments on the attached.</p> <p>Thank you.</p> <div style="position: absolute; top: 50%; left: 50%; transform: translate(-50%, -50%); font-size: 0.8em; font-family: cursive;"> <p>plz see JDW that I am writing to ADB and copying to US, Australia, China that we have new services to Singapore or Delta which Pacific Island are demanding. I am copy letter to you.</p> </div>			
FROM Atsuko Horiguchi		ROOM NO. E 1229	EXTENSION 84256

INT 2754  
AM

THE WORLD BANK/IFC/M.I.G.A.

# OFFICE MEMORANDUM

President Has Seen

DATE: December 23, 1996

TO: Distribution Below


FROM: Richard Frank

EXTENSION: ~~30585~~

SUBJECT: Visit to New Zealand - December 9 and 10, 1996

*Wang*  
*Another*  
*wood trip*  
*will*  
*1/3*

*cc GIC*



Following the Australia visit (see separate note to Mr. Wolfensohn), Leigh Hollywood, Moina Varkie and I spent two days in Wellington and Auckland visiting government officials, business groups and NGOs.

In Wellington, I opened a conference on "Going Private: Public Enterprise Reform in New Zealand," which was sponsored by the Bank (LAC Region), the Commonwealth Secretariat, Tradenz and Ernst and Young. The main purpose of the conference was to expose senior government officials from around the world to the lessons from New Zealand's privatization experience. Senior public and private sector representatives from a number of Asian, African and Latin American countries attended. The very specific policies, techniques and results of New Zealand were of great interest to the participants.

In Wellington we also met with officials from the Treasury, Reserve Bank and Ministry of Foreign Affairs and Trade (MFAT). Treasury's main interest is in change management within Bank, which they hope will lead to more accountability, efficiency and better results on the ground. The meeting with Treasury also provided Leigh Hollywood with an opportunity to make a case for New Zealand's joining MIGA. This is unlikely to happen very quickly as the Government appears concerned about assuming any contingent liabilities. They are also concerned about the 'corporate welfare' aspect of helping New Zealand firms with publicly-funded support. And the fact that few (if any) New Zealand businesses had argued for a political risk insurance program weakens their interest in pursuing membership. Nevertheless, I recommend we persist in this effort as the new coalition government formed after our meetings seems keen on promoting exports and clearly some New Zealand firms feel disadvantaged *vis-à-vis* companies from other countries.

In the meeting with MFAT, the issue of coordination with the Asian Development Bank (ADB) was raised. They voiced a concern about the possible duplication of Bank/ADB lending activities in the South Pacific and hoped that there would be a clear clarification of roles soon. This concern was flagged to Mr. Wolfensohn's office and included in the brief for the MDB Heads' meeting in London. They also expressed an interest in the Bank getting more actively involved in forestry issues in the South Pacific -

*Two hrs*  
*was in*  
*game at*  
*our London*  
*meeting*

*I will do GIC what to do*  
*hi*

in playing an honest broker role and promoting better understanding of the economics of forestry.

*In Auckland*, we had a roundtable session with New Zealand businesses and banks, organized by Tradenz. This provided an excellent opportunity to exchange views on market opportunities, brought about a greater awareness of how the Bank Group can assist the private sector, and promoted the Business Partnership Center. Through Leigh Hollywood's presentations, we were able to illustrate the benefits of MIGA's services and generate interest among the private sector participants to make a case to the government for New Zealand's membership in MIGA.

We also had a meeting with NGOs (including Oxfam, Greenpeace, Council for International Development, Christian World Service and others), who were very appreciative of our visit and applauded the Bank Group's efforts to engage them in dialogue and partnership. The main concerns they raised related to: privatization and adjustment and how these programs impacted on the poor. They stressed that the Bank Group should focus much more on the implementation details of these programs. They also expressed interest in the HIPC Initiative (they would like to see a speedier implementation with a much weaker link between debt relief and structural adjustment), the role of the Bank in Rwanda's reconstruction, and progress in PNG (they were particularly interested in seeing the Bank take a more active role with the Government on the issue of deforestation).

As with MFAT, we also discussed the forestry issue, raised by IFC and SPPF - namely that the Bank Group had a role in ensuring a rational approach towards exploitation of forests in countries such as the Solomon Islands. They agreed that without the involvement of an institution such as the Bank Group, the existing forests would be wiped out in the near future. Greenpeace was particularly interested in finding out how committed the Bank was to substantially funding solar and wind initiatives, since they felt fossil fuel based energy seriously threatened the existence of some Pacific Island nations because of the impact on climate change. I asked them for any technical or scientific studies they had prepared on this topic and they agreed to send them to us. The meeting was very constructive and ended with a request from the NGOs to meet more systematically to exchange views and explore ways of working together. They feel particularly disadvantaged as local NGOs being so far away from where the dialogue with the Bank takes place.

Distribution:

[REDACTED]

MDs: J. Einhorn, G. Kaji, C. Koch-Weser, S. Sandstrom

PSD Group: J. Lindbaek, A. Iida, I. Shihata, H. Fukui, J-F Rischard, S. Zhang,  
D. Khairallah, D. Conrad, M. Malloch Brown

CC: Messrs./Mmes. L. Hollywood, M. Haug, G. West, P. Stephens, K. Martin,  
J. Kassum, H. Rosen, M. Constantine, J. Clark, B. Pasquier,  
P. Benoit, T. Belot, M. Varkie, M. Liley



OFFICE MEMORANDUM

President Has Seen

*Mary Ann  
Andrew  
good trip  
Bill*

*cc GIC*

*113*

DATE: December 23, 1996

TO: Distribution Below

FROM: Richard Frank

EXTENSION: 30585

SUBJECT: Visit to New Zealand - December 9 and 10, 1996

Following the Australia visit (see separate note to Mr. Wolfensohn), Leigh Hollywood, Moina Varkie and I spent two days in Wellington and Auckland visiting government officials, business groups and NGOs.

In Wellington, I opened a conference on "Going Private: Public Enterprise Reform in New Zealand," which was sponsored by the Bank (LAC Region), the Commonwealth Secretariat, Tradenz and Ernst and Young. The main purpose of the conference was to expose senior government officials from around the world to the lessons from New Zealand's privatization experience. Senior public and private sector representatives from a number of Asian, African and Latin American countries attended. The very specific policies, techniques and results of New Zealand were of great interest to the participants.

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P. Benoit, T. Belot, M. Varkie, M. Liley

113


The World Bank  
Washington, D.C. 20433  
U.S.A.

JAMES D. WOLFENSOHN  
President

January 7, 1997

Mr. S. Sandström  
Mr. G. Kaji ✓  
Mr. C. Koch-Weser

If the enclosed EM is correct, we have some more work to do.

  
James D. Wolfensohn

The World Bank  
Washington, D.C. 20433  
U.S.A.

JAMES D. WOLFENSOHN  
President

January 7, 1997

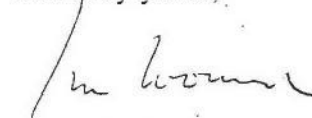
Mr. Solomon Asamoah  
Room No. K-5131  
I F C

Dear Mr. Asamoah,

Thank you for your note of December 24<sup>th</sup> addressed to Atsuko Horiguchi. I found your observations very useful, and I agree with you that the discussion groups should probably be smaller, but my problem is time. I do think that I should speak for less time, but on this occasion I really did not know how well-briefed the group was. Perhaps I misjudged the climate, and I can assure you that next time I will give opportunity for more questions.

I will follow up on your very interesting comment about cooperation and I have indeed sent a copy of your note to Sven Sandström, Gautam Kaji and Caio Koch-Weser. I hope you don't mind.

*Best regards,*  
Sincerely yours,

  
James D. Wolfensohn

L - I N - 1 N O T E

DATE: 24-Dec-1996 10:24am

TO: ATSUKO HORIGUCHI@A1@WBWASH  
TO: HEATHER CHINN@A1@WBHQB

FROM: , IFC

EXT.:

SUBJECT: Comments for Mr Wolfensohn

Thank you for the invitation to meet to meet Mr Wolfensohn. I had a couple of questions/observations I wished to make on Friday but didn't get the chance, so I hope this can be forwarded to him.

a) Closer Bank/IFC co-operation.

Being relatively new (1.5 years) I was suprised at the coolness of the relationship between the two organizations with such similar and complementary aims. I have tried to make contact with my counterparts at the Bank who cover my African countries (mainly S.Africa and Nigeria), and it has been very difficult (though a breakthrough was made last Friday when I met with the S.African Country Director). I know it has been one of your priorities and you have set up high level committees to address this.

However, this has yet to reach the 'troops on the ground'. I've thought about this and I believe that for the most part, the relationship is cool not because of ill intent, but because in the course of daily business the other institution is often thought (wrongly) to be irrelevant, unless there is a specific reason such as a major project on pension reform or privatization of a country's social security systems.

I have a practical suggestion to try and change this.

At IFC there is starting to be a change in this attitude because on Board/Snr Mgt papers requiring approval, we have begun to include a section for 'World Bank Group Strategy' or 'IFC/IBRD co-ordination', which forces IFC to consult with the bank and find out what they're doing/thinking. Perhaps the way to make this a two-way street and further incentivise people to coordinate is to include a similar requirement for Bank papers requiring approval from the IBRD Board/Snr Mgt. ? This would force staff to at least begin a dialogue with the other institution, or risk not having answers to questions on this raised by committee/Board members (probably the most feared position for a World Bank Group employee to be in !).

b) To get a better feel for the feeling from the ground, as was the stated intention of this tea party, the discussion group should be limited to a max 12-15 people (and rightly, not management). Preferably with those who have opinions and are ready to express them (though how these people can be identified I'm not exactly sure).

Once again, thanks for the invitation, it was interesting.

JDW : Further to your tea  
with young staff  
on 20 DEC, comments  
from<sup>an</sup> IFC participant  
who didn't have a  
chance to speak

20 Dec 1996 15:31

AL

( 6=Asamoah@1=US@2=MCI@3=IFC@5=IF

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 28, 1997	
<b>OFFICE OF MANAGING DIRECTORS</b>			
<b>OPERATIONS, POLICIES AND PROGRAMS</b>			
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James D. Wolfensohn, President		E12-27	
	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendations
<b>RE: Update Regarding Japanese Banks as of January 1997</b>			
<b>CONFIDENTIAL</b>			
<b>REMARKS:</b>			
Jim:			
This comes from our source. Do you think you need to ask questions on our exposure to Japanese Bank and counterparts to Treasurers and IFC?			
<b>FROM:</b> Gautam S. Kaji		<b>EXTENSION:</b> 81384	

**DECLASSIFIED**  
**MAY 17 2017**  
**WBG ARCHIVES**

DECLASSIFIED

MAY 17 2017

WBG ARCHIVES

*C. Wolfenden*  
*Jim*  
*This covers Japan*  
*on source of risk*  
*you need to read*  
*the CW report to*  
*WBG*  
*problems*  
*in pension*  
*and IFC*  
*1/27*

January 20, 1997

CONFIDENTIAL

### Update Regarding Japanese Banks as of January 1997

This memo discusses the continued deterioration of Japanese banks and offers questions that might be posed to a financial institution regarding its direct and indirect exposure to Japanese banks. While many of the problems facing Japanese banks are not new, disclosure regarding the true scale has taken years (see discussion below). This slow disclosure, waning faith in the country's „promise“ to deregulate the financial markets, banking scandals, withholding of information from the international community by Japanese bank regulators (especially in the case of Daiwa and Sumitomo), the „first“ bank failures and the continued deterioration of the Japanese economy<sup>1</sup> have eroded two beliefs:

#### 1. Confidence in „Japan Inc“

Many market participants previously held the belief that the Japanese Government would never allow a repeat of the 1925 banking crisis, or a severe diminution of international Japanese bank credibility. Not only does the government face an undercapitalized banking sector but also huge looming crises in the pension and insurance sectors. Ironically, problems in these sectors have been compounded by the government's implementation of a low discount rate (1/2 of 1 %) and low long-term government bond yields (2.5 %). While these levels were imposed to assist the banking sector in increasing bank capital and to stimulate economic growth, they compounded the degree of underfunding in the pension sector<sup>2</sup> as well as the inability of insurers<sup>3</sup> to earn requisite<sup>4</sup> returns. The increasing Japanese government deficit (USD 700 billion has been spent on

<sup>1</sup> This is in contrast to our previous review when the Japanese economy offered more positive signals. In particular, ample opportunity existed then for policy stimulus in Japan. Low unemployment, 3 % inflation, healthy fiscal position and expected real GDP growth were most commonly cited as the strengths - as discussed later in the memo, these have been reversed.

<sup>2</sup> According to Japanese government economists, the pension sector must earn a minimum of 5.5 % to stay even with the current level of underfunding in the industry.

<sup>3</sup> The insurance sector in Japan experienced a 20 % decline in premium levels during 1996 due to the first allowed competition from foreign insurers.

<sup>4</sup> Hence, while this memo focuses on banks, the financial institution may also wish to review its direct and indirect exposure to the pension and insurance sectors in Japan.



economic stimulus since 1992<sup>5</sup>, yet gross domestic product („GDP“) remains stymied with less than 1 % growth - the 3 % GDP surplus in 1992 is now a 5 % GDP deficit), the falling Nikkei (an 11 % drop in early January), the rollercoaster yen (down 45 % since 1995), and the failure of Japan to deregulate its financial markets after making announcements and promises to do so further reduce confidence in „Japan Inc.“ Note that the reserve position of the Japanese central bank (as well as all of the other major central banks) is small relative to the size of forward foreign exchange positions that are short yen, making it unlikely that central bank support could stem the tide.

## 2. Japanese banks are „too big to fail“

While initial confidence was drawn from the mandated yen 130 billion 1992 bailout of Toyo Shinkin Bank by Sanwa, Industrial Bank of Japan and Fuji, the burden of the losses was more significant than disclosed. Subsequently, the regulators permitted the failure of two credit associations and some smaller banks. Perhaps the most shocking event was the allowed failure of Hanwa Bank in 1995 - prior to the announcement that the regulators would not act, the failures had been non-bank entities such as credit associations (recently Kizu Credit Union in Osaka), money lenders (recently All Corp.) and seven jusen (housing loan companies). However, the continued deterioration of the Nikkei in combination with the leveraged decline of bank stocks and bad loan crisis places the level of bank capital in jeopardy relative to international standard of 8 %. Concern over the health of the banking sector has caused the premium<sup>6</sup> charged to Japanese banks by international money market traders to triple over the past week to 13 basis points over the rate paid by Western banks. The Japan premium should be watched on a bank by bank basis as a key indicator for the potential failure of a bank<sup>7</sup>.

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<sup>5</sup> The current government does not show signs of slowing down its fiscal stimulus packages - in fact, it recently announced a USD250 billion package to build new high-speed trains, arguably a pork-barrel move to please partisan factors of the government. The hope is that Prime Minister Hashimoto will be able to stem such practices in the future, but he has only been in office for 1 year and needs to retain popularity to retain his position.

<sup>6</sup> This is referred to as the „Japan premium“ by money market traders.

<sup>7</sup> In other bank failures, for example Continental Illinois in the United States, the premium paid in the interbank market sky-rocketed prior to the time that there was a refusal to lend to the bank.

### The Bad Loan Problem

Our first memo to you on Japanese banks is dated May 9, 1992. At that time, Japanese banks disclosed a write-down of losses totaling 1.045 trillion yen (USD 7.76 billion) due to the declining value of their stock portfolios and the Japanese Finance Ministry announced that the banks' bad loans were an estimated 8 trillion yen (USD 62.08 billion). Concern was significant that the combination of a falling stock market and absorption of the bad loans would cause Japanese banks to fail to meet the 8 % capital standard imposed by the Basle Accord as of 1993. Due to assistance from the government, lenient accounting practices<sup>8</sup> relative to Western countries, the sale of an estimated USD100 billion of foreign security holdings to convert unrealized gains into cash, and an exodus from many loan markets, Japanese banks were able to „meet“ the 8 % requirement in 1993.

Today, the bad loan estimate is USD 275 billion (4.5 times the original estimate) and estimated stock market losses are significantly higher. Note that there have been interim „scares“ in the market place. For example, during 1995 concern over the Japanese banking sector and economy were so significant that when regulators announced that Hanwa Bank would not be bailed out but would be liquidated, Japanese banks were forced to pay premiums of up to 65 basis points in the money markets relative to their competitors. In addition, the lack of confidence in the value of Japanese bank stocks led investors to demand triggers to increase the number of shares to be issued for convertible preferred in the case of further deterioration. This has resulted in further downward pressure on the value of bank stocks, and increased the inability of banks to take write offs for their bad loans. Additional pressure on bank equity looms due to the scheduled „Big Bang“ for the Tokyo markets in 2001 - if this proceeds as

---

<sup>8</sup> For example, under Japanese accounting regulations, banks continued to record as income interest payments on loans which were no longer being serviced for as long as 12 months after payments had stopped. Thus, bad loans could be masked for up to one year before they are reflected in financial statements. Compounding this were lenient policies which allowed bad loans to be written off under such line items as „other recurring expenses,“ „sundry other expenses,“ etc. This enabled Japanese banks to offset loan losses against such items as „securities gains.“ Thus only a limited picture of true credit quality was available, with up to a twelve month lag. Today, the Japanese banks continue such practices as recording unrealized securities gains as capital.

scheduled, bank commissions will decrease. If it does not proceed, Japan's credibility in the international capital markets will erode further.

#### **The Declining Stock Market Problem**

Many banks in Japan include unrealized gains on stock holdings as assets equity. As the value of these assets deteriorates with stock market declines, there is serious concern that the Japanese banks will be undercapitalized. Analysts vary as to the level that the Nikkei must fall to cause alarm, but the range is 14,500 to 17,000. Note that the closing level on January 10th was 17,303 (down 770 points for the day, but still producing price earning ratios of over 60 times). This was the lowest point since August of 1995, and presents the likelihood that closing levels as of the fiscal year-end in March 1997 may be below those in March 1996 - thus triggering a write down of assets and equity.

The foreign holdings of securities by Japanese banks is of uncertain value. Some analysts believe that most of the holdings are relatively recent - an estimated USD 60 billion was purchased during 1996. The decline in the yen and minimal movement in interest rates in the bond markets during 1996 suggests that these may be sources of further loss rather than sources of potential cash profits. To the degree that there are significant profitable holdings in foreign equity markets and these are realized to shore up Japanese bank capital, there is the possibility that Greenspan's warning of an over-inflated profit bubble will prove its existence in the form of drastically falling stock prices. An attached table displays the correlations (or sympathy moves) of key stock markets from around the world. Our analysis indicates that the correlations are strongest during periods of significant bear market declines - in other words, a decline of the Japanese market has the highest likelihood of being accompanied by large declines in other markets around the world.

As indicated on the attached chart which compares the decline of the Nikkei versus selected bank stocks, the impact is uneven across banking institutions. Some are stronger than others. For example, the president of Sakura Bank recently stated „We have sufficient unrealized gains on other securities holdings, we will be able to absorb (losses from Japanese stocks) even if such losses are sustained.“

### Words of Caution

Due to the poor state of disclosure with regard to the health of the Japanese banks, the opacity of the economic statistics available, and the almost continuous revamping of the political landscape with respect to economic policy, there are several wildcards or potential actions by the Japanese government which may be able to solve (or further compound) some of the problems:

- The National Tax Agency recently agreed not to tax Nomura Bank on the funds it used to assist its failing finance association (35 billion yen to date, with an expected additional 100 billion yen to be invested during the next quarter). To date, most of the loan write offs have been related to the closure of the jusen rather than the write off of loans due to over-inflated asset values<sup>9</sup>. An announced tax-forgiveness plan could encourage banks to take the write offs required to improve their standing in the international capital markets.
- Currently, 40 % of Japan's economic output is managed by the government through „administrative guidance“ licenses. There is a strong call for massive reform in the areas of protectionism, interest rate policy, currency policy, market liberalization and privatization. While other economies have benefited in the long run due to such changes<sup>10</sup>, it was not without a period of severe recession, currency collapse and trade deficit. Given Japan's precarious health, and slow proof that they are committed to reform, the direction and timing of future reform are uncertain.
- The lack of confidence in „Japan Inc“ is verified by recent large short positions in both the yen and the Nikkei taken by several hedge funds and well-known speculators. While most of the short positions have not been announced officially, others have made public announcements of their exits from the Japanese markets, including CalPERS (they will reduce their investment in Japan to 50 % of its Asian portfolio, down from 70 %) and Phoenix Investment Counsel („We are cutting our investments in Japan by a big percentage.“). A review of the major world equity markets indicates that Japan was the worst performer in 1996 - this fact will undoubtedly impact asset allocation decisions

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<sup>9</sup> In fact, many of the over-valued loans outside of the real estate arena have yet to surface. For example, the Japanese banks were very public buyers of billions of dollars in artworks and other master pieces a decade ago - due to the global art value declines, substantial losses are likely to exist here as well.

<sup>10</sup> Notably the United States, New Zealand, Australia, and the United Kingdom.

during the customary annual reviews by pension funds and other investors during the first quarter of 1997.

- One bank analyst, Akira Takai of the Daiwa Research Institute, estimates that unrealized stock profits held by the top 20 Japanese banks totaled 9.85 trillion yen prior to the stock market's decline in January. His opinion is that this is sufficient to handle the bad loan problem, and the profits will stay there for the Japanese banks until a Nikkei level of 14,900.
- On January 14, 1997, outgoing Federal Reserve Board governor Lawrence Lindsey stated „They have a big challenge ahead. They have a major restructuring to go through. But ... Japan is fundamentally an enormous contributor to the world. So I wouldn't be all that worried about the capacity of the government to handle a crisis.“

## Questions

### 1. Direct counterparty exposure

If a major Japanese bank were to fail, a direct exposure will be the replacement cost of outstanding trades with that counterparty. What is the current credit exposure to each of the major Japanese banks? In the event of a Japanese bank failure, it is likely that on some positions money will be owed to Japanese banks, and on others will be payable. Do these two offset (i.e. are netting agreements in place, and are they enforceable) or is there the risk of being forced to make payments without getting the benefit of amounts owed and receivable? Note that credit exposures can change quite quickly as scheduled payments on transactions are made and as transactions run off. How is the credit exposure to each of the major Japanese banks expected to behave in the short term? Is it likely to increase or decrease?

### 2. Settlement exposure in the Japanese yen (JPY) or other currencies

As part of its daily business, payments are made and received in JPY or other currencies with various counterparties. The Bank maintains one or more JPY

accounts for the purpose of making these transactions. If the Bank maintains these accounts at Japanese banks, is the Bank at risk of not being able to collect amounts deposited for its benefit by others? What would happen if the authorities froze the accounts of a bank at which the Bank maintains its accounts? Is there an intra-day pattern which renders the Bank particularly vulnerable to the timing of any account freeze? Even if the Bank's accounts are not frozen, is the Bank at risk if one of its counterparties finds its JPY funds frozen? Is this outcome different at different times of the day? (These questions should be repeated in all relevant currencies.)

### **3. Barrier options**

Barrier options are those which are triggered to vanish or to spring into existence when a stated item (for example the JPY/USD exchange rate, the level of the Nikkei, a reference interest rate) hits or breaks through a preset barrier level. The Bank may have entered into transactions whose value and risk characteristics change dramatically and irreversibly when certain events happen. An example is the purchase of an option position which increases in value as the market declines, but which actually vanishes if the market ever goes below a certain point. Does a sharp move in any of the Japanese markets trigger any barrier options or dramatically change the Bank's risk profile? Does the Bank run any scenario analysis which would show the effects of sudden sharp moves in the currency, interest rates or the equity market in Japan? Does the Bank rely on certain Japanese bank counterparties for payment in the case of extreme market moves?

### **4. Market dislocation**

Because of their complexity, many non-standard options require rehedging (also known as „dynamic hedging“) when the markets move. Risk management for these trades assumes a market that allows periodic rehedging. What will the Bank do if it becomes difficult to re hedge positions as markets become illiquid? Are there any positions on the books which assume an ability to dynamically re hedge in Japanese markets, or where the counterparties are expected to be Japanese banks? Does the Bank have alternate sources for liquidity in the event that the expected sources are unavailable?

**5. Trading halts on an exchange**

Often during market dislocations regulators halt trading on organized exchanges. In the event of a sudden shock to the Japanese financial system there could be trading halts in the major Japanese exchanges. What would be the implications of trading halts in, for example, the Nikkei or JGB futures? Are there positions which would need to be rehedged in a situation where it is possible that trading may have been halted? Does the Bank have any alternate sources of liquidity which might not be subject to trading halts?

**6. Second-order exposure to Japanese banks**

The Bank's customers have varying exposures to the Japanese financial system and to individual Japanese banks. A customer might, for instance, have a large cross-currency swap with a Japanese counterparty which is substantially in-the-money, or may be vulnerable to the general level of Japanese economic activity (exporters of food and other primary products, for example). Does the Bank have a substantial credit exposure to any counterparty which would be particularly vulnerable to a collapse in the Japanese market, or a collapse or cessation of trading of a specific Japanese bank?

**7. Contingency and back-up plans**

Does the Bank have a clearly articulated contingency plan for dealing with a sudden collapse of a major Japanese financial firm? Does the Bank have a heavy reliance on Japanese banks for liquidity lines? Do any of the Bank's major customers have a heavy reliance on Japanese banks for liquidity or hedging purposes that would cause a significant deterioration in their financial health?

**8. Japanese bank guarantees and special purpose vehicles**

Many banks and brokerage houses have set up AAA-rated subsidiaries for the purpose of writing derivatives, many of which rely on an ultimate credit backstop. The backstop is often a Japanese bank. Is there any provision for „look-through“ in the Bank's current credit reporting system which would mean that these exposures

are allocated against the ultimate guarantor? If not, what is the Bank's exposure to the guarantor, and how much capital is there in the structure protecting the Bank from having to rely on the guarantee? Is the capital buffer at risk from the same factors as the guarantee itself?

#### **9. Dollar/yen basis swap market**

During the last wave of concern about the Japanese banking sector, the Japanese banks were forced to borrow at a premium to other G7 banks which resulted in, among other things, significant changes in the pricing of the JPY/USD cross-currency basis swap market. An actual bank failure in Japan would increase the „Japan premium“ again, and this would have an immediate impact on the profitability of any outright basis swap exposure. One common example of basis swap exposure is that which arises from the marking to market of cross-currency swaps, even when the JPY interest rate risk is hedged or where the exposure is purely to a floating rate. What is the Bank's exposure to a widening of the USD/JPY basis swap market, especially in the long end? Does it create a profit or a loss? As a related question, does the bank have an exposure to any of its customers who may be relying on the Japanese market for funding? What effect would it have on the Bank if any such customers became unable to fund themselves in the Japanese market? Does the Bank have any substantial cash balances in JPY which it needs to roll forward periodically, either through the deposit market or through forward foreign exchange contracts?

#### **10. Model risk**

There are some products for which no readily observable market exists, and these must be marked to market by feeding observable inputs (yield curves, currency rates volatilities, etc.) into a valuation model of some kind. This gives rise to model risk - the risk that the prices produced by the model are not where the real market would trade. How much of the Bank's exposure generally is to products whose price is calculated by models rather than being observed directly in the market, and what steps are taken to check that the model's prices are close to market prices? In each case, is there another well-accepted model for this product which gives results which would reduce the profitability of the position? If so, by how much? Does the Bank take model reserves in such situations?



**11. Settlement risk analysis**

The business activities of the Bank require the receipt and payment of JPY and other currencies. On high transaction dates (for example month end), the Bank may make or receive payments on dozens of over-the-counter derivatives transactions, loans, securities transactions, etc. The Bank may also have significant funds at stake in spot transactions such as foreign exchange, the money desk, the repo desk, payroll accounts, etc. How do these funds flow through Japanese banks? Are they on deposit to be paid or received by the Bank? If these funds were frozen in the event of a banking crisis, what would the liquidity impact be on the Bank? What type of reports are available to monitor this?

# THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 28, 1997	
<b>OFFICE OF MANAGING DIRECTORS</b>			
<b>OPERATIONS, POLICIES AND PROGRAMS</b>			
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James D. Wolfensohn, President		E12-27	
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
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<input type="checkbox"/>	Approval	<input type="checkbox"/>	Per Our Conversation
<input checked="" type="checkbox"/>	Information	<input type="checkbox"/>	Recommendations
<b>RE: Pakistan - Debt Exposure</b>			
<b>REMARKS:</b>			
Jim:			
You may be interested in this item on Pakistan.			
<b>FROM:</b> Gautam S. Kaji		<b>EXTENSION:</b> 81384	

NEW ZEALAND: The current account deficit in the third quarter of 1996 widened to 887 million US dollars, up from 802 million in the previous quarter. The deficit for the year to September was equivalent to 4.6% of GDP, and is likely to rise further, owing to the strong New Zealand dollar. The main problem area is on the services account, where overseas travel has increased markedly. Exports are proving remarkably resilient. See APDB, January 23, 1997, II.

PAKISTAN: Debt Exposure

EVENT: Despite avoiding a debt default in December, foreign exchange reserves remain deficient.

SIGNIFICANCE: Uncertainty over the nature of the next civilian government has weakened attempts by the caretaker economic team to improve the country's finances. Islamabad may struggle to meet further debt repayments due in March and June.

ANALYSIS: The risk that Pakistan could default on its foreign debt for the first time in its history was a key factor behind President Farooq Leghari's decision to dismiss former prime minister Benazir Bhutto in November (see APDB, November 6, 1996, II). Reserves in November fell to less than 600 million dollars, below the level of payments due in December.

A crisis was narrowly avoided through support from banks in the Middle East and a renegotiation of the country's loan agreement with the IMF. However, although official reserves have risen to 800 million dollars, the country's external economic crisis is not over. Further payments are due in March (worth 600 million dollars) and June (500 million). Meanwhile, the trade deficit is likely to total a huge 3 billion dollars in fiscal 1996-97 (July-June), albeit down from previous highs.

One problem for Islamabad has been the cool response from the IMF. Under Bhutto, relations with the Fund reached an all-time low owing to Islamabad's persistent failure to meet IMF targets and to provide accurate economic data. The appointment of the interim government, which includes an economic team made up of technocrats led by World Bank official Shavid Javed Burki, cleared the way for renewed negotiations. In the event, the IMF only agreed to release 80 million dollars up front, just half of that promised to the Bhutto regime. However, it also boosted the total size of its programme to 831 million dollars, an increase of 231 million from the previous agreement.

Threats to external stability. Concern over Pakistan's ability to manage its external commitments has been exacerbated by developments in several areas:

1. Political uncertainty and corruption. Economic policies and business confidence are being undermined by continuing political uncertainty surrounding the role of the caretaker government and nature of a future civilian administration. Since Bhutto's dismissal, the country has seen a largely lacklustre election campaign, reflecting uncertainty over whether the elections will go ahead as scheduled on February 3, and public frustrations over the failure of the caretaker regime to attack corruption. Some members of the caretaker government, including Leghari, have now themselves been accused of misusing public funds. The extent of the corruption problems is illustrated by a newspaper claim attributed to Burki that politicians and ministers have taken around 100 billion dollars from government coffers in the last

*A. Waffersolin*  
*You may be interested*  
*in this*  
*Pakistan*

around 100 billion dollars from government coffers in the last three years for their own use. This compares to annual GDP last year of just 60 billion dollars.

The 100 billion is a potent argument  
 $3 \times 60 = 180$  - you  
 can't walk away  
 with 180 as off to  
 ODP!

Nawaz Sharif's Pakistan Muslim League (PML) appears set to emerge as the largest party in any election. This outcome would be acceptable to both the markets and business community, not least because Sharif appears to have concluded a deal with Leghari and the army, which will allow him to take power but with restrictions on his autonomy in foreign and economic policy (see APDB, January 8, 1997, I). However, the election may not produce any clear winners. An opinion poll released today showed the PML with 29%, ahead of Bhutto's Pakistan People's Party (PPP) with 23%, Imran Khan's Tehrik-i-Insaaf with 10%, and minor parties with a combined 38%. It is thus likely that Sharif will have to form a coalition with smaller groups. Any such political deals will draw accusations of corruption, which could undermine a new government's authority at its inception.

2. Relations with the IMF. Islamabad remains dependent on relations with the IMF to secure external funding. However, the IMF is wary of being let down again and, in particular, uncertain of whether a future elected government will keep promises made by the caretaker administration. Any failure by Islamabad to meet key economic targets, such as improving tax collections, reducing the budget deficit and cutting government expenditures (see APDB, November 26, 1996, I), could trigger a more permanent suspension of lending, precipitating a fresh debt crisis.

3. Debt. Risk assessments have been adversely affected by Moody's decision to downgrade Pakistan (see APDB, November 14, 1996, I), and the country's growing reliance on short-term borrowings to keep up repayments on its 30 billion dollar foreign debt. Foreign banks are becoming more cautious and may attach tougher conditions to future loans, which in turn could exacerbate the debt problem. In response, Islamabad is likely to seek further assistance from banks based in sympathetic Middle Eastern states.

4. Spending cuts. Despite the caretaker government's recent claims that the crisis has been resolved, it still needs to trim its spending commitments, widen the tax base and create certainty over its medium-to-long-term policies. Political resistance to tax rises and spending cuts remains very strong (see APDB, November 26, 1996, I). Almost two-thirds of the budget goes towards defence and debt servicing, leaving only a small portion for civil bureaucracy and development. The development budget, initially projected at 106 billion rupees (1.86 billion dollars) in last June's budget, has so far been cut by over 40%, leaving little room for further economy.

Meanwhile, cutting defence expenditure remains difficult politically. The caretaker government has avoided suggesting cuts in this area, since Bhutto's dismissal was dependent upon an alliance between Leghari and the army. Future civilian governments are likely to be similarly restricted. Moreover, defence cuts are most unlikely while relations with India remain tense.

5. Privatisation. The government has decided to accelerate the privatisation programme in order partially to pay off its foreign debts. However, during the five years since the programme was launched, progress has been very slow (see APDB, June 26, 1996, I), reflecting, amongst other things, the weak financial condition of many state companies and labour resistance. The commitment of the next civilian government to privatisation is uncertain.

6. The cotton crop. The next cotton crop is currently estimated at 15-20% below the government's initial target of 10.5 million 375-pound bales, owing to a pest attack. Cotton is vital for the economy in two respects:

- any surplus raw cotton is available immediately for exports, which generate foreign exchange and help to narrow both the trade and current account deficits; and
- an abundant crop causes the price of raw cotton in the domestic market to fall, therefore bolstering the textile industry, which is the country's largest industrial sector.

Conversely, any shortfall not only weakens external sector prospects, but also hurts profits in the textile sector.

**CONCLUSION:** The country's economic prospects remain blighted by political uncertainty, poor fiscal policy, and over-dependence on cotton and textiles. The IMF is likely to be less tolerant in future of any failure by Islamabad to meet Fund economic targets.

**Keywords:** AP, Pakistan, IMF-World Bank, economy, politics, agriculture, balance of payments, debt, fiscal, privatisation, corruption, election

*Updated On: Monday, January 27, 1997*

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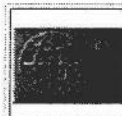
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# OFFICE OF THE REGIONAL VICE PRESIDENT, AFRICA

## The World Bank

<b>ROUTING SLIP</b>		<b>DATE:</b> January 7, 1997	
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James Wolfensohn		E-1247	
Through: Mr. Gautam S. Kaji Ms. Atsuko Horiguchi		D 10-065 E-1229	
<input type="checkbox"/>	URGENT	<input type="checkbox"/>	PER YOUR REQUEST
<input type="checkbox"/>	FOR COMMENT	<input type="checkbox"/>	PER OUR CONVERSATION
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<input checked="" type="checkbox"/>	FOR SIGNATURE, <i>please</i>	<input type="checkbox"/>	PREPARE REPLY
<input type="checkbox"/>	NOTE AND CIRCULATE	<input type="checkbox"/>	NOTE AND RETURN
<b>RE: Launch of the African Virtual University -- February 5th</b>			
<b>REMARKS:</b>			
<p>Jim: We are delighted that you have agreed to do this. Attached are two letters -- to Irving Goldstein of INTELSAT and to Prime Minister Bruton of Ireland -- inviting them to take part in the satellite hook-up on February 5 at 8:45 a.m. which will launch the AVU. Both INTELSAT and the Irish Government are playing major roles in making the AVU a reality. Thanks.</p>			
<b>FROM</b> Callisto Madavo & Jean-Louis Sarbib		<b>ROOM NO.</b> J5-097 & J5-107	<b>EXTENSION</b> 82856 & 34946

JAMES D. WOLFENSOHN  
President

January 9, 1997

Mr. Irving Goldstein  
Director General and CEO  
INTELSAT  
3400 International Drive, NW  
Washington, DC 20008

Dear Mr. Goldstein:

*The African Virtual University*

On behalf of my colleagues at the World Bank, I want to thank you and INTELSAT for your generosity in making the satellite capacity for the prototype phase of the Africa Virtual University (AVU) available. This is a crucial step in making the AVU a reality.

We are currently on track for a demonstration operation during a week-long workshop in Addis Ababa, Ethiopia, between staff from African participating institutions and the project development team. During the workshop, there will be live transmission of courses and seminars from the United States and Ireland. African vice-chancellors, staff faculty and students from the University of Addis Ababa will thus experience the program as it has been designed and provide feedback to the design team.

The workshop is scheduled for the first week of February, and we are planning a joint inaugural event on Wednesday, February 5th, with the Prime Minister of Ethiopia, Meles Zenawi, and I making some remarks. I will be participating in the occasion by satellite hook-up from Washington; the Prime Minister will be on-site, and will be joined by Mr. Edward V.K. Jaycox, my special advisor on Africa and retired vice-president for the Africa Region.

The Irish Government has also been instrumental in the realization of the AVU by providing training and course offerings. I am, therefore, writing to the Prime Minister of Ireland, John Bruton, asking him to join us on the 5th from Dublin and to make some remarks. If your time permits, I would be delighted if you could also join with me in the telecast on that day. It is scheduled to start at 8:45 a.m., and if you are indeed available at that time and could come to my office here at the Bank a few minutes prior to the 8:45 a.m. start time, we would be delighted to have you greet the participants. I look forward to hearing that you will be able to participate.

January 9, 1997

Let me reiterate how grateful we are for your support. We are pleased to have forged a relationship which I am sure will grow stronger as more and more opportunities for collaboration in fostering development in the developing world present themselves.

Very best wishes for 1997.

*I have personal my auto,*

Sincerely yours,

*/s/*

James D. Wolfensohn

cc: Ms. Betty C. Alewine  
President & CEO  
COMSAT

Ms. Jan Piercy  
U.S. Executive Director

Mr. Joaquim Carvalho  
Executive Director (Ethiopia)



Mr. Irving Goldstein

-3-

January 9, 1997

bcc: Messrs./Mmes. Kaji and Horiguchi (EXC); Rischard (FPDVP); Madavo, Sarbib (AFRVP); Jaycox; Cleaver (AFTKT); Fredriksen (AFTHD); Meesook (AFCD6)

EBaranshamaje/MH  
Re EXC No. 14156

JAMES D. WOLFENSOHN  
President

January 9, 1997

His Excellency John Bruton  
Prime Minister  
The Government of Ireland  
Dublin  
Republic of Ireland

Dear Mr. Prime Minister:

*The African Virtual University*

Thank you for your most gracious letter and reiterated commitment to support the African Virtual University. Your analysis of development problems and approach to development assistance is one we commend and share.

Africa is the World Bank's number one priority in the coming years. My first visit in the developing world as President of the Bank was to the countries of Sub-Saharan Africa. I was touched by the magnitude of the challenge and, at the same time, rejuvenated by the potential and the energy of African people. I believe that education is the basis of any sustainable action in the development process and that the international community has a moral responsibility to help Africa educate all of its sons and daughters, irrespective of age, gender and social origin. The gap in levels of education between Africa and the rest of the world is enormous and has been growing. The changed dynamics of the world economy, where competitiveness derives from the use of knowledge, makes bridging that gap an urgent priority. Nothing short of a bold and truly innovative action, such as the African Virtual University, will be sufficient to achieve this goal.

With the help of the donor community, I have pledged to directly attack the problem, and, to this end, we have launched a couple of initiatives. First, the information revolution represents an opportunity for developing countries to partake in the production and dissemination of knowledge. We have in that respect created INFODEV, a global, multilateral donor program aimed at helping developing economies benefit from modern information systems. INFODEV provides seed money for innovative projects in the area of information technology applications, such as the African Virtual University. Second, we have launched, in consultation with African governments, a partnership for capacity

building in Sub-Saharan Africa, and are developing concrete mechanisms to implement that partnership.

The African Virtual University is a project which is dear to my heart. It will help fulfill the growing gap between demand and supply for higher education, and it capitalizes on the information revolution to equalize opportunities. I have given, and will continue to give, my personal support to ensure that this project is a resounding success.

The scope of this project is truly multinational -- through the provision of instructional programs from a large number of countries and institutions, reception of those programs from an even larger number of African countries and institutions, and the feedback mechanism between the project development team and African clients and partner institutions.

I am aware of the valuable contribution that Ireland has made in the development of this project, and we are most grateful to you and the Irish people. I particularly appreciate your emphasis on training African staff to become owners of the project and to develop capacity to develop content. I have been kept informed of the activities being planned to enable the transmission of courses from Ireland to AVU partner institutions in the English-speaking countries of Sub-Saharan Africa. Training of African staff and the production of content are indeed urgent priorities that must precede the beginning of any instructional program offering. We would like the Irish Government to join with us in funding and implementing those activities.

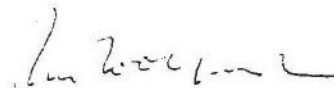
In that context, a week-long workshop comprising African staff and the AVU development team, half of which is composed of Irish consultants, will convene in Addis Ababa in the first week of February. This training workshop will consist of transmitting by satellite live courses and seminars from Ireland and the United States to the University of Addis Ababa, hands-on training on the various features of the project design and evaluating the program on the basis of actual experience with the project. One of the key objectives is, among other things, to go through a review with African faculty of AVU courses being produced in Ireland. This workshop will be followed by specific training programs, some of which will take place in Ireland. I want to thank you for offering support to implement these priority activities.

I will be giving an opening keynote address by satellite on Wednesday, February 5, to the participants in the Addis Ababa workshop. The Prime Minister of Ethiopia, Meles Zenawi, will be addressing the gathering on that occasion and interacting with us through audio talk-back techniques. I have also invited Mr. Irving Goldstein, Director General and CEO of INTELSAT, to join me in launching the event from Washington. As you may know, INTELSAT has made a significant contribution to the project by providing, free of charge, the required satellite capacity for the implementation of the prototype operation.

I would like to invite you to join us by satellite in this inaugural event, and hope you will also agree to make some remarks to the participants. The telecast will begin at 8:45 a.m. Washington time (1:45 p.m. Dublin time) on February 5th. If you can indeed join us, we would of course be in touch with more of the logistical details. I look forward to hearing that you will be able to do so.

With kindest regards and best wishes for the New Year.

Sincerely yours,



James D. Wolfensohn

cc: Mr. Leonard Good  
Executive Director (Ireland)

Mr. Joaquim Carvalho  
Executive Director (Ethiopia)



bcc: Messrs./Mmes. Kaji, Horiguchi (EXC); Rischard (FPDVP); Madavo, Sarbib (AFRVP); Jaycox; Cleaver (AFTKT); Fredriksen (AFTHD); Meesook (AFCD6)

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EXC No. 14165

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**OFFICE OF THE REGIONAL VICE PRESIDENT, AFRICA**  
**The World Bank**

<b>ROUTING SLIP</b>		<b>DATE:</b> January 6, 1997	
<b>NAME</b>		<b>ROOM. NO.</b>	
Mr. James D. Wolfensohn		E-1247	
Through: Gautam S. Kajri		D 10-065	
Atsuko Horiguchi		E-1229	
<input type="checkbox"/>	URGENT	<input type="checkbox"/>	PER YOUR REQUEST
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<input type="checkbox"/>	NOTE AND CIRCULATE	<input type="checkbox"/>	NOTE AND RETURN
<b>RE: Response to the Memorandum from the African Governors</b>			
<b>REMARKS:</b>			
<p>Attached for your signature is a response to the memorandum presented to you at the meeting you held with the African Governors during the Annual Meetings. It has been prepared in both English and French, with transmittal letters in both languages to the Chairman of the African Group for your signature. Following your signature, we will send these to Minister Doupamby-Matoka, and give copies to the Corporate Secretariat for official transmission to the EDs and senior management. Copies of the Governors' memorandum in English and French are also attached.</p> <p>The memo has been prepared by the African Region, with input from both IFC and MIGA.</p>			
<b>FROM</b>  		<b>ROOM NO.</b>	<b>EXTENSION</b>
Callisto Madavo & Jean-Louis Sarbib		J-5097 & J-5107	82856 & 34946