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President A.W. Clausen

Managing Committee

1981 (Oct - Nov)
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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Management Committee DATE: November 6, 1981

FROM: H. Golsong

SUBJECT: Multilateral Investment Insurance Scheme - Interim Report

This is to inform you about the initial steps I have taken in regard to the above-mentioned subject.

Before envisaging any formal action following up on Mr. Clausen's initiative in his address before the Board of Governors of the World Bank on September 29, 1981, it is necessary to take some soundings with interested governments and the private sector, to hear their views and suggestions, if any, and in general to have their comments on the feasibility of World Bank involvement in the matter under review.

It will be time-consuming and counter-productive to contact all member governments. However, in order not to allow the creation of any artificial barriers to the furtherance of the proposal, I intend to meet informally with the Executive Directors on November 30 in their lounge to discuss with them the attached Issues List - which we intend to use as an Aide-Memoire during our discussions with governments and the private sector - and to invite through them all governments with interest in the matter to contact us. I will at the same time state, however, that it is our intention to contact directly certain countries, inter alia our largest shareholders, certain Arab nations and a number of Latin-American countries who have already expressed views on the matter (see the attached list).

This process of informing the Executive Directors is similar to the one envisaged by Mr. Stern in regard to the meeting on co-financing scheduled for November 23, 1981.

I would like to have your reactions to the Issues List, it being understood, of course, that it should be considered an open-ended document intended to stimulate discussions and expressions of viewpoints on general or particular issues in regard to multilateral investment insurance and protection.

Attachments

Mr Clausen,

I shall schedule for the Managing Committee meeting of November 16.

[illegible] 11/10

MULTILATERAL INVESTMENT INSURANCE

ISSUES LIST

1. The purpose of the intended discussions is to ascertain, after the initiative taken by Mr. A.W. Clausen in his speech to the 1981 Annual Meeting of Governors of the World Bank on September 29, 1981, whether there is a reasonable identity of interests among a significant number of governments for the purpose of further exploring the establishment of a multilateral investment insurance scheme.

2. While previous efforts by the World Bank Group, by other international organizations or by private individuals or organizations remain an important element for consideration in such discussions, the new initiative should not be seen as linked to such previous actions. Circumstances have changed over the last decade. There is presently a more general recognition that an increased flow of private capital to developing countries is needed to supplement flows from official sources, and that such private capital flow is inhibited or restrained by a concern on the part of private investors or their governments for the safety of investments. Also, a new breed of investors, from the public sector, from new capital exporting countries, have come onto the market. Finally, new investment techniques, away from "traditional" branch or subsidiary investments, are increasingly used.

3. The following questions may stimulate exploratory discussions with governments and the private sector:

   (a) To what degree are inhibitions or restraints in private investment flows caused by political rather than commercial risk factors?

   (b) What are the particular concerns of private investors in regard to political risk factors: war, expropriation, transferability of capital and profits, "creeping" expropriation?

(c) Are, in this regard, certain regions or sectors of investment of more concern to private investors than others?

(d) To what extent could a multilateral investment insurance scheme complement existing national investment protection schemes, e.g. by providing for protection of transnational corporations or multinational investment schemes, by providing a scope or type of insurance not offered by a national investment insurance scheme, or by re-insuring national investment insurance schemes?

(e) How do developing countries perceive current private investment protection schemes?

(f) Should agreement of a host country be a prerequisite for insurance of a particular investment?

(g) Should a scheme concentrate all or part of its resources on re-insurance of investments insured by the national public or private investment insurance schemes?

(h) What type of investments should be covered:

- "traditional" subsidiary or branch type of investments by private investors;
- such "traditional" investments by public or mixed public-private investors;
- licensing, marketing, or acquisition arrangements or long-term export credit facilities if they substitute for "traditional" investments; and
- placements of liquid funds?

(i) What physical area should be covered?

(j) What risk should be covered:

- commercial;
- political (and therein: war, expropriation, transfer);

and up to what percentage would such risk be covered?

(k) Would formulation of a scheme imply the formulation, or a link with, a set of principles on the basis of which recourse to the scheme would be measured?

(l) Would the scheme's organization imply a link with the World Bank?

(m) How would the scheme's financial needs and income structure be organized?

(n) How would the scheme's dispute-settling machinery be structured?

Intended Contacts - December 1981-January 1982

Countries:
- U.S.
- U.K.
- Germany
- France
- Japan
- Canada
- Switzerland
- Saudi Arabia
- Kuwait
- United Arab Emirates
- Mexico
- Colombia
- Chile
- Peru
- Brazil
- Pakistan
- India
- Egypt
- Sweden

Organizations:
- ICC
- OECD

Record Removal Notice

File Title	Barcode No.
Managing Committee Official Files: Correspondence with Managing Committee Member - Correspondence 01	1775370

Document Date	Document Type
November 3, 1981	Memorandum

Correspondents / Participants
To: Members, Managing Committee
From: Ernest Stern, Senior Vice President, Operations

Subject / Title
Taiwan

Exception(s)
Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	22-Feb-17

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: November 11, 1981

FROM: Roger Chaufournier

SUBJECT: Graduation

Since I shall be away when the Managing Committee meets to consider the "Graduation" paper, I wanted to record for consideration of the Committee views on both the timing and substance of some of the draft recommendations I have seen.

I start from the premise that whatever policy we adopt must be equitable in its treatment of members and hopefully must be perceived as equitable. In this sense an automatic and mechanistic approach at this time, would not achieve these objectives because circumstances have changed materially since our earlier graduation policy was adopted. I recognize that we must have two objectives; the first follows from the mandate from our charter that we are a lender of last recourse and that we should not lend to countries which can raise resources from other sources on reasonable terms.

The second objective is that because of increasing claims on our resources we must pursue the first objective still more vigorously than in the past.

My major reservation to a stricter application of an income criterion with fixed dates for graduation is that income is a much less appropriate proxy today, to measure access to other resources on reasonable terms, than it was some years ago.

The following considerations should be kept in mind:

First, countries which hover around an income level of $2,600 are not all in the same position with respect to access to private sources of finances on reasonable terms. At the time of earlier graduation exercises, access to capital markets was relatively easy for countries which were graduated, and even in 1975 private banks were doing a good job of recycling. Today markets are more restricted for the larger borrowings envisaged by middle income countries, and costs in real terms are high. Some countries, like Yugoslavia and Romania suffer from the backlash of events in Poland. Tito's death and the period of political consolidation which follows has added some uncertainty. Cyprus is still in the process of solving its internal divisions. Portugal is still working out the Salazar inheritance, the loss of colonies and is preparing for entry in the European Common Market. All these countries attach great importance to continued Bank presence to reassure foreign lenders and facilitate joint operations.

Second, most of these middle income countries are undertaking programs of structural adjustment. Whether supported by SAL or not, it is a process which will take several years and will require substantial financial support from outside as well as policy advice. Most of these programs extend over five years at least and a cessation of Bank activities before then would be considered disruptive of such programs.

Thirdly, these adjustments are taking place at a time when markets in industrial countries for exports from middle income countries are far less buoyant than in the past, thus placing more reliance on official flows.

Fourthly, many of the middle income countries which would be affected by more drastic graduation policy are more dependent on technical assistance from the Bank than was the case say, when Norway was graduated. An obvious case is Yugoslavia, where the ability of the less developed Republics and Provinces in developing and implementing projects is limited and where the influence of Federal Government is also limited. They are persuaded, and I share this view, that general advice unrelated to project implementation will not yield the same results. They argue that a borrower is more readily prepared to accept advice as a condition of the viability of a project in which a lender puts its money at risk. The last project we presented for Kosovo was an example and several Executive Directors supported such a role for the Bank in Yugoslavia. The Federal Government has a difficult task of balancing the allocation of resources (financial and technical assistance) to the least developed regions and a significant readjustment of Bank lending over a three year period (which if I understand well would be the implication of one of the recommendations).

Finally, we must point out that an adjustment process is already under way. Our program in Oman is being phased out this year, our lending to Romania, Yugoslavia and Portugal is being reduced in real terms and we are engaged in a discussion on how this program should further evolve.

I believe we can show the Board that we are in the process of reducing our lending to higher income countries in a manner which takes into account the specificity of their individual situations and which tries to reduce unnecessary disruptions to their economies.

I would have no problem with a proposal which would indicate to the Board that beyond a certain income level (the amount of $2,600 proposed looks reasonable) the Bank should initiate discussions with its member countries with a view to phasing out its lending but I believe flexibility should be maintained, with no arbitrary terminal date by which lending should be entirely discontinued.

The recent application for membership of Hungary and Poland will show, I am sure, that we must preserve room for judgment and not imprison ourselves in rigid formulas.

You will also remember that Minister of Finance Kostic is coming to Washington on December 1 to discuss with you how our program in Yugoslavia should evolve--it would be most embarrassing if he were confronted with a memorandum from you to the Board, recommending a position which, if approved, would seriously limit any useful discussion with him.

In any case, I know that some of the arguments I have developed will be raised by some Executive Directors and I believe it would be unwise to present a document to the Board which would not make any reference to them.

cc: Mr. Stern,
Mr. Karaosmanoglu

OFFICE MEMORANDUM

TO: Managing Committee DATE: March 18, 1981

FROM: Moeen A. Qureshi

SUBJECT: Issues Related to IBRD Capital: How to Pursue Releases of Paid-in Capital

1. At its meeting on March 17, the Finance Subcommittee considered the following proposals/questions related to the release of paid-in capital:

- strengthened monitoring system: A more systematic approach to follow-up on a country by country basis was recommended.

- release tied to local procurement: It was proposed that the use of "tied" release be accepted on a selective basis only and in the context of special contacts with a few Part II countries.

- whether to seek a "code of conduct" governing releases: The question was how to follow-up the suggestions made by the German Finance Minister relating to a possible voluntary agreement among members to release paid-in capital at a more rapid rate than required on legal grounds.

- whether to propose a staff study on selected IBRD capital issues: The question was how to respond to Mr. Ragazzi's request in the Board for such a study.

Background information on the issues is contained in the attached papers which were submitted to the Finance Subcommittee. The purpose of this memorandum is to summarize the decisions taken by the Subcommittee for the information of the Managing Committee.

Strengthened Monitoring System

2. Georg Gabriel has been assigned overall responsibility for follow-up with individual member countries, enlisting the support of Regional Vice Presidents for Part II countries. The secretariat function for this effort will be provided by Financial Policy and Analysis Department. Status reports will be submitted periodically to the Managing Committee, initially at monthly intervals.

Release Tied to Local Procurement

3. It was agreed that it was not desirable to promulgate a "policy" regarding tied releases, but that the possibility could be explored on a case-by-case basis with certain selected countries where there was some prospect of attaining releases which would otherwise not have been made.

Whether to Seek a "Code of Conduct" Governing Releases

4. It was considered that the risks of pursuing this path might outweigh any advantages. Concerns were expressed over whether full airing of the issues might (a) produce a counter-productive effect on countries which might otherwise have released in full, (b) lead to divisiveness within the Board, especially along North-South lines, and (c) result in a negative effect in the form of a slower pace of capital subscriptions. It was agreed that:

(a) an internal note would be prepared on past practice, which would indicate that the weight of precedence was for full release. This could be used if appropriate in individual discussions with Directors.

(b) those Directors who had expressed an interest in a discussion of the subject (Messrs. Looijen, Munzberg and Ragazzi) would be informed that it was Management's judgement that such an approach would be counterproductive, and that Management did not, therefore, intend to take the initiative in bringing the matter to the Board.

Mr. Ragazzi's Request

5. A purely factual paper will be prepared by FPA in consultation with Controllers and circulated to Executive Directors on (a) past releases, (b) use of the local currency portion for administrative expenses, and (c) use of the Philippine formula. This will meet Mr. Ragazzi's request for information. It is expected that there will not be sufficient support from other Directors to pursue these matters in the Board at the present time.

APH:ps

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Finance Subcommittee

DATE: March 15, 1982

FROM: Joe Wood

SUBJECT: Issues Related to IBRD Capital

1. Two issues are proposed for consideration:

- how to handle pending requests for Selective Increases

It is proposed that informal discussions with the Executive Directors be initiated on the basis of a Discussion Note. A draft of such a note is attached. The Finance Subcommittee is asked:

a) to accept (or modify) the approach proposed; and

b) to review the "illustrative" allocations of Selective Increases included in the Discussion Note from the point of view of whether they reflect the right sense of priorities. Particular attention is invited to the treatment of the Saudi increase vis-a-vis the increases proposed under the Brazil-Yugoslavia precedent. Also the implicit allowance for Hungary in these allocation could be controversial.

- how to pursue releases of paid-in capital

It is proposed that a somewhat more systematic approach to follow-up on a country by country basis be established. In addition it is proposed that the use of "tied release" as an incentive for release be employed on a selective basis only and in the context of special contacts with a few Part II countries.

Apart from approving these proposed steps, the Subcommittee is asked to consider how best to respond to two proposals related to release which have been put forward by others: namely,

a) the suggestion by the German Finance Minister (Mr. Matthoefer) that a higher proportion of paid-in capital be provided on a convertible basis; and

b) the request by Mr. Ragazzi that a staff study on selected capital issues (use of Philippine formula; application of paid-in capital for administrative expenses) be prepared.

Since some members of the Subcommittee may not be familiar with the background to these issues, a few memoranda are attached for information and other materials are referred to in what follows. Copies of the materials mentioned and further information on what has transpired in recent months may be obtained from Mr. Lonaeus (x75553) on issues related to Selective Criteria and from Ms. Humm (x75979) on issues related to release of capital subscriptions.

How to Handle Pending Requests for Selective Increases

2. The key problem in the handling of Selective Increases has been the resistance of the United States to further increases in authorized capital. The US concern is that further increases threaten its "potential" veto power of 20%. 1/ This concern is what led the US to request deferral of Board discussion of the last formal memorandum on Criteria for Selective Capital Increases (R80-326 dated November 18, 1980). The recently completed assessment study has served to confirm the US view that the 20% "potential" voting power ought to be preserved. Mr. Clausen has assured Secretary Regan that Bank management favors preserving the 20% as a sign of continued US interest in, and support for, the Bank.

3. Over the past several months a number of alternatives for accommodating pending Selective Increases have been explored internally. These are summarized in Attachment 1. They are mostly self-explanatory. The idea of reallocating shares from the UK has been discussed informally with the ED's office on several occasions. While the topic has yet to be considered at the Ministerial level in the UK, Mr. Anson believes there is a good chance the UK would accept a reallocation "if properly presented". By this he means that such reallocation is portrayed as a positive step by the UK (i.e., not interpreted as a backing away on their part) and is used to accommodate Selective Increases that can be justified on the basis of strict parallelism with the IMF (i.e., Saudi Arabia and Brazil-Yugoslav precedent).

4. The allocations shown in Attachment 1 assumed that decisions on Hungary and Poland were likely to be deferred, perhaps for a considerable period. It now appears that Hungary's application to the Fund may be processed fairly soon (see Attachment 2). As noted in Mr. Qureshi's memorandum of March 4 (Attachment 3), it may well be advisable to defer Bank action on Hungary's application until some understanding can be reached with the Directors on how Hungary's shares are to be handled in relation to other prospective claims. In order to avoid embarrassment

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1/ The veto power is "potential" because the six part phasing of the US subscription to the GCI will mean that its actual voting power will fall below 20% over the next few years. They are well aware of this fact.

vis-a-vis Hungary, it is desirable that the informal consultations on the broader issues begin soon, so that it doesn't appear we are stalling on Hungary's application.

5. The approach proposed for initiating informal consultations is to distribute the attached Discussion Note (Attachment 4) and to follow it up with bilateral contacts with individual Directors. The US has been told that this is how we intend to proceed. Our objective should be to find out how far we can go in accommodating Selective Increases. The preferred position we would recommend is Option #3 on the grounds that:

a) it gives more flexibility than the other two options;

b) it provides more capital to the Bank; and

c) obtaining additional shares for new allocations to rapidly growing members are better accomplished through Selective Increases than through reallocations. This minimizes the risk that countries will be perceived as "backing away" from the Bank.

The obvious drawback to Option #3 is the need to include an allocation 1/ to the United States to permit it to maintain its "potential" 20% veto. This can only be justified on grounds of "realpolitik"; i.e., as the price that must be paid to get the US to go along. That will be hard for some Part II countries to swallow.

6. If we find that no consensus can be mobilized around Option #3, then a fall-back position would be Option #2, probably modified to allow for some reallocation of shares as shown in Option #1. A number of possible modifications can be imagined. We would propose to come back to the Subcommittee with an indication of options available and a recommendation, if the preferred option cannot be "sold".

1/ There is another possibility--cited in Attachment 1--for preserving the US 20%; namely, the exercise of pre-emptive rights. We have not developed this alternative in the Discussion Note because it raises complex legal problems and because it is impossible to project what other countries might exercise such rights if the US did so. Nevertheless, we expect Directors to ask for some supplementation options involving pre-emptive rights.

How to Pursue Releases of Paid-In Capital

7. Bank management is clearly committed to making a strong effort to secure prompt subscription to the GCI and prompt release of the local currency portion (i.e., 6-3/4%) of these subscriptions as well as of previous subscriptions (i.e., 9%). Most large countries were contacted during the Annual Meeting. Subsequently letters were sent--under Mr. Clausen's signature--to virtually all member countries. (Pro forma copies of these letters are shown as Attachment 5). One issue to be faced is how best to follow up these letters. It is proposed that each country with more than $10 million in unreleased paid-in (including the 6-3/4% to be subscribed under the GCI) be assigned to a member of the Subcommittee for follow-up. (A complete list is shown as Attachment 6.) Members would be asked to report quarterly to Ms. Humm on where matters stand. A status report based upon this feed-back would be prepared and circulated to all members for information. The same reporting system would underpin the periodic revision in assumptions on capital subscriptions and releases used in Bank financial projections.

8. The second issue is whether or not to encourage releases by being more forthcoming in accepting or even promoting releases tied to procurement in the releasing country. The policy of the Bank in the past has been to seek freely convertible releases. A few members have made their releases conditional, tied to purchases in the country. The Bank, while not encouraging this practice, has accepted it. Burke Knapp has suggested that consideration be given to using this approach more widely (Attachment 7). We have looked into this. In the hypothetical situation of all countries releasing the local currency portion tied to local purchases, the Bank would obtain approximately $185 million in additional free funds. It is of course unlikely that all countries would adopt such a policy. Countries where tied releases would lead to an increase in the amounts used by the Bank would naturally resist it, whereas other countries, where such a policy would restrict the amounts released, would certainly be tempted to introduce tying. Thus, the amount of additional free funds obtained would be much less than the "mechanical" analysis indicates, and it is possible that it actually would be less than at present.

9. In light of this risk, we recommend against promulgating a new "policy" on this matter. Instead, we suggest a selective approach be followed concentrating on a few countries with large amounts of paid-in capital that in the past have not been released. These countries are India ($19 million), Brazil ($59 million), Romania ($30 million), New Zealand ($18 million), Philippines ($25 million), Egypt ($19 million) and Korea ($17 million).

10. A third issue is how best to respond to two proposals related to release which have recently been put forward. The first is contained in a letter from Mr. Matthoefer, the German finance minister. He suggests that:

> "...thought should be given without delay to ascertaining whether and to what extent the Bank's capital base could be strengthened by requiring all shareholders to make their payments in convertible currency and according to a fixed schedule, and by raising the current restrictions on the use of such payments..."
>
> (Munzberg memo to Clausen: February 16, 1982)

Our response to their suggestion (Attachment 8) was positive but rather vague. The question is what, if anything, should be done by way of follow-up. It has been suggested by some Directors--notably Mr. Ragazzi--that Bank management should try to achieve a consensus around some form of "code of conduct".

11. If a code could be obtained that expands the releases, the benefits for Bank net income are obvious. We question, however, the feasibility of getting a consensus on rules for release that are at all attractive, given the position of the US against immediate release. We should also bear in mind--while looking at the need for additional free funds--that the Bank needs additional subscribed capital in order to support present lending plans. If a strict policy for releases were achieved, it could well have negative effects in the form of a slower pace of capital subscriptions.

12. In the past, we have been reluctant to encourage a broader discussion of the release question, because the US position was not generally known, and we were concerned that discussion would increase the risk of a negative bandwagon effect. This argument has lost much of its validity as knowledge of the US position has spread. At present, therefore, the possible deferral of planned subscriptions stands out as the major risk involved in seeking a code of conduct.

13. In light of these considerations, we would welcome guidance from the Subcommittee on how, if at all, to respond to Mr. Matthoefer's proposals.

14. The other outside suggestion which is still pending is that put forward in the Board recently by Mr. Ragazzi (Attachment 9). He had offered similar suggestions earlier, but had been persuaded--in an

informal meeting with the G-6 Directors--not to pursue them. Apparently, he has not lost interest in the subject. We have several options: (a) to ignore the request; (b) to meet again with Ragazzi to try to persuade him to drop his request; (c) to respond to the request. Here again, guidance from the Subcommittee would be helpful.

Attachments
HL:dr

II (R)P: 01

Attachment 5

Part II Countries (Part I countries without indicated changes)

Dear

During the Annual Meeting, ~~we touched on~~ the subject of subscriptions to the General Capital Increase of the Bank was touched upon. I would like to take this opportunity to return to these issues. My purpose is to urge all member countries to subscribe to the General Capital Increase as soon as possible and to release the full amount of the paid-in portion of subscriptions for use in the Bank's lending operations.

As you know, the Board of Governors adopted Resolutions Nos. 346 and 347 on January 4, 1980 increasing the Bank's authorized capital and authorizing the Bank to accept increases in individual members' Bank subscriptions, beginning September 30, 1981. Specific allocations for your country are shown in the Attachment to this letter, as are the amounts that must be paid in as part of the subscription process.

With regard to the portion of the subscription that is to be paid in the member's own currency, it has been the general practice in the past for members to release their local currency for lending by the Bank if they are in a financial position to do so. Discussions by the Executive Directors of the amount of capital to be paid in under the General Capital Increase were based on the assumption that this practice would be continued and that as a result the cost-free resources of the Bank would be increased substantially.

During the period since negotiations on the General Capital Increase were concluded, the Bank's medium-term income prospects have deteriorated. A number of steps have been taken to improve the income outlook. The Executive Directors have approved the introduction of a "front-end fee" of 1-1/2% of the loan amount, and administrative expenses are being held to a level below that previously planned. In this context, it is especially desirable that ~~financially stronger~~ member countries review their plans for subscription to the General Capital Increase and--to the maximum extent possible--accelerate subscriptions and provide for full and prompt release of the local currency portion of these subscriptions. Indeed, there was almost unanimous consent among the Directors that everything possible should be done to strengthen the Bank's finances further by making the paid-in portion of the General Capital Increase available as rapidly as possible~~, thereby sharing the burden of keeping the Bank financially sound between the borrowing member countries and the better-off shareholders~~.

The procedures for subscribing to the General Capital Increase include a step requesting member countries to inform the Bank of their intention to subscribe prior to the actual subscription. It would be most helpful if you could let us have this notification at your earliest convenience, including an estimate of when subscription will commence, your present intentions regarding the phasing of subscriptions (all at once or in installments), and the approach you intend to pursue with regard to release of the local currency portion of paid-in capital.

Sincerely,

A. W. Clausen

Attachment

cc: Executive Director

bcc: Messrs. Qureshi
Scott
Thahane
Wood
Chang /Martinez
Ikram

2/2/82

. GCI-1 (R)P: (att) 03

ATTACHMENT

IBRD General Capital Increase
Share Allocations to --------

Resolution 346

Resolution 346 provides for a total increase of 331,500 shares. Shares have been allocated among members in proportion to their existing shareholdings. The specific allocation to --------- and payments required upon subscribing, are as follows:

	US$ Equivalent 1/				
		Portion Paid-in			
No. Shares	Total Value	Total	In Gold or US$	In National Currency	Amount Callable

Resolution 347

Resolution 347 provides for a total increase of 33,500 shares. Each member may su :ribe to 250 such shares. The subscription to shares under Resolution 347 does not require payment of any portion of the share price at the time of subscription, though, as with all other shares, the subscribing member must accept an obligation to honor calls against the full value of the shares.

1/ Shares have a par value each of $100,000 in terms of 1944 dollars. Pending a decision on a successor to the 1944 dollar as the unit for valuation of capital, capital subscriptions are being accepted at 1.20635 current U.S. dollars to one 1944 dollar, the value of the 1944 dollar at the last par value of the U.S. dollar, subject to the possibility that adjustment may be required when the standard of value issue is resolved. The U.S. dollar equivalent cost of shares given here has been calculated using the rate of 1.20635 current U.S. dollars to one 1944 dollar.

Countries with Paid-In Capital in the GCI in excess of $10 million

(by constituency)

United States

United Kingdom

Germany

France

Japan

Egypt, Kuwait, Pakistan, Saudi Arabia

Canada

India

Israel, Netherlands, Romania, Yugoslavia

Austria, Belgium, Turkey

China

Denmark, Finland, Norway, Sweden

Italy, Portugal

Indonesia, Malaysia, Thailand

Australia, Korea, New Zealand

Nigeria

Mexico, Spain, Venezuela

Argentina

Brazil, Philippines

Algeria, Libya, [Iran]

South Africa

OFFICE MEMORANDUM

Attachment 7

TO: Mr. Moeen A. Qureshi, SVPFI

DATE: October 27, 1981

FROM: J. Burke Knapp, CON

SUBJECT: IDA Contributions and Bank Capital Releases - Tying to Procurement

I think it would be desirable for a clearer policy to be established in the Bank and IDA regarding the question of how far we should accept (or, indeed, propose) IDA contributions and Bank capital releases that are tied to external procurement in the country concerned. This memorandum is intended as a step in that direction.

General

Before referring to the specific cases of IDA and the Bank, I should like to offer the comment that I often find the importance of this issue greatly exaggerated in people's minds. There is a widespread misunderstanding of the relationship between tying and actual procurement patterns. Of course, if there is no external procurement in country X to be financed by the Bank, it makes a real difference to the Bank, and to the country concerned, whether it releases capital to the Bank on a tied basis or in convertible form. A tied release will be illusory, and there is even a danger that the country concerned will mistakenly conclude that it discharged an obligation to the Bank and that it is the Bank's fault that this has not been availed of.

But take the case of country Y where there is ample procurement for Bank-financed projects in third countries. Here it should be a matter of indifference to a country whether it releases its capital subscription to the Bank in convertible form or tied to procurement in the country concerned. In the first case it loses foreign exchange from its reserves; in the second case it loses foreign exchange by making some unrequited exports. The important and often misunderstood point is that, since the direction of procurement on Bank-financed projects is determined by international competitive bidding, no country can get additional procurement by releasing capital in tied form.

Yet there seems to be an important psychological distinction. In my talks with Romania, for example, regarding their participation in IDA 6, it became quite apparent that the bureaucracy there felt very differently about an obligation to allocate foreign exchange from their reserves to finance a convertible contribution to IDA, and an obligation to put up local currency for financing IDA procurement in Romania which would avoid an overt allocation of foreign exchange and "merely" entail the loss of foreign exchange revenue that would otherwise have been earned from such procurement. In the light of this psychological block I have no doubt that in some countries, where there are ample external procurement opportunities, we will be able to get more funds for the Bank and IDA if we are prepared to accept funds tied to procurement in the country concerned.

Of course, from our point of view, it is something of a nuisance to have to identify procurement to be matched up with tied funds, rather than handling all of our operations in freely convertible currencies. However, I am assured by Mr. Hattori that it is nothing more than a mild nuisance and that the administrative burden imposed by the utilization of tied funds is not a serious one.

I should now like to outline how I have been handling this subject in discussions with member countries regarding their subscriptions to Bank capital and their participation in IDA 6.

Subscriptions to Bank Capital

During the Annual Meeting, as requested, I talked about the general capital increase (and, in several cases, about the special capital increases which countries had not taken up or, after having taken up, had not released the 9 percent portion) with delegations from Argentina, Brazil, Colombia, Mexico, Venezuela, Spain, Portugal, Greece and Yugoslavia. Prior to these talks I had checked with Mr. Chang in the Controller's office and had ascertained that the volume of Bank-financed external procurement in each of these countries (except Portugal) was expected to be sufficient (on the basis of past experience) to use up the country's 6-3/4 percent funds (plus the 9 percent funds where past capital subscriptions were involved) over a period not exceeding a few years. In these circumstances, except in the case of Portugal, I felt it appropriate in the memorandum that I wrote to each of the delegations, and in my talks with them, to express the wish that any release be made in convertible form but at the same time to mention the alternative of tied releases "if considered necessary".1/ In my talks I emphasized the point made above that this choice should be a matter of indifference to the country concerned, and that releases in convertible form were much more convenient to handle. Nonetheless, the people to whom I talked almost universally exhibited interest in the prospect of making a tied release, and I received the distinct impression that in many cases we could obtain a larger release on that basis (or obtain it faster) than if we insisted on convertible funds. I may add that in the case of Portugal the alternative of a tied release was not mentioned on either side.

IDA Contributions

In talking with more or less the same countries about participation in IDA 6 I have taken a different approach, and have had a rather different experience.

Here, my starting point has been the system of pro rata calls upon IDA donors designed to assure equitable burden sharing. Taking this as a point of departure, I have told prospective IDA donors that they

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1/ The Bank has in the past negotiated tied capital releases with India, Pakistan, Mexico, Paraguay, Turkey and Burma.

would be expected to participate in the pro rata drawings scheme along with everybody else, and have taken a strong position against tying on the ground that this would be potentially incompatible with the pro rata drawings scheme. I have argued that either there would be adequate procurement financed by IDA in a country to use up their pro rata calls (in which case there would be no advantage to them in insisting on tying their contribution); or, the amount of procurement to be financed would be inadequate, in which case the rate of their effective payments into the IDA pool would fall behind that of other donors.

All the countries with whom I conducted IDA 6 discussions (except Romania) accepted my argument, perhaps because I had more time to persuade them to this point of view than in the case of the Bank capital discussions, and perhaps also because I appealed to their sense of pride in participating in IDA on the same basis as the major donors. The Argentines and the Mexicans initially proposed tying their IDA contributions, but retreated when I persisted along the lines outlined above.

Only in the case of Romania did I run into real trouble, as outlined in the General section above. In an attempt to talk them out of tying their contribution to IDA-financed procurement in Romania, I insisted that in this case IDA should have the right to use up their funds as rapidly as procurement opportunities developed and I pointed out that in practice, given the relatively large flow of IDA-financed procurement in Romania, this would mean that the Romanian contribution would be called upon more rapidly than if they made their contribution in convertible form and joined in the IDA donors drawing pool. As I had feared, they came back with compromise proposals designed to assure that their tied funds would not be drawn upon any more rapidly than the other donors' convertible funds, and that if IDA-financed procurement in Romania exceeded the amount of drawings that would have been made upon Romania in the pool, the excess would be financed by payment in convertible currencies. I rejected such compromises and offered them the choice between coming into the donors pool on a convertible basis or tying their contribution and accepting that it would be utilized by IDA relatively quickly. This issue brought on a deadlock that was never broken.

Conclusion

In the case of IDA contributions, having in mind the burden sharing aspects of the pro rata drawing scheme, and having in mind the fact that countries capable of becoming IDA donors should be able to handle convertible releases without serious difficulty, I would recommend that every effort be made to keep IDA contributions on a convertible basis, and to accept tied contributions only (as in the case of my suggested deal with Romania) where this would bring to IDA the advantage of an accelerated contribution.

In the case of Bank capital releases, on the other hand, there has been a history of tied releases and there is not the same burden sharing aspect. Furthermore, I presume that the campaign for capital releases will be extended to member countries that rank much lower down in terms of poverty and economic development. Since such countries tend to have severe balance of payments problems, many of them are likely to insist that any capital releases be made in tied form, even though opportunities for using such tied funds on Bank-financed external procurement may be very limited.

I would recommend, therefore, that in the case of Bank capital releases the Bank's representatives should seek to obtain convertible releases, but that they show considerable flexibility in accepting (or even proposing) tied releases in cases where, in their judgment, this would mobilize more funds faster. They should also, when accepting tied funds, ask that these be available to the Bank whenever a procurement opportunity offers, rather than being released in annual installments.

Both in the case of IDA contributions and Bank capital releases it would be desirable for Bank representatives negotiating these matters to be supported by a regular supply of information from the Controller's office regarding the flow of, and prospects for, procurement in the countries concerned.

cc: Messrs. Rotberg
Gabriel
Hattori
✓Wood
Mistry

JBKnapp:isk

March 1, 1982

Dear Mr. Minister:

Thank you for your letter of February 9, 1982. I note with great pleasure your government's intention, subject to parliamentary approval, to take up Germany's full allocation of shares in the General Capital Increase during 1982. The additional callable capital thus provided will help the Bank maintain a strong financial position, which is of course essential to our continued success in raising funds around the world.

I have noted with interest your suggestion that ways should be sought to ease the restrictions that have the effect of limiting the Bank's use of the full paid-in portion of capital subscriptions. I very much agree with this objective. While there would be difficulties under the present Articles of Agreement in increasing the proportion of subscriptions that are paid in convertible currencies, much the same effect could be achieved if ways could be found to accelerate the release of the national currency portion of subscriptions. We are at present considering possible means to achieve this end. Given the legal provisions which permit subscribing governments to regulate the release and use of these amounts, progress in this area is likely to require an agreement among governments to take action which goes beyond the minimum to which they are legally obliged. I would very much hope to have the support of Germany in seeking such an agreement in the interest of a stronger World Bank.

Let me conclude with an expression of thanks for Germany's consistent support of the Bank and, in particular, for the role it has played in supporting management's efforts to maintain financial policies that will assure a strong position for the Bank in the years ahead.

Sincerely,

A. W. Clausen

His Excellency
Hans Matthoefer
Minister of Finance
P. O. Box 1308
D5300 Bonn 1
Federal Republic of Germany

cc: Mr. Munzberg, Executive Director for Germany
Cleared in substance with Mr. Scott
cc: Messrs. Qureshi: Thahane: Golsong: Hattori: Wood
DJW:ba

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Managing Committee Official Files: Correspondence with Managing Committee Member - Correspondence 01	1775370

Document Date	Document Type
February 16, 1982	Memorandum

Correspondents / Participants

To: Mr. A.W. Clausen, President
From: Reinhard Munzberg, EDS

Subject / Title

General Capital Increase

Exception(s)

Additional Comments

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. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	22-Feb-17

Record Removal Notice

The World Bank Group Archives & Records Management

File Title Managing Committee Official Files: Correspondence with Managing Committee Member - Correspondence 01	**Barcode No.** 1775370

Document Date February 26, 1982	**Document Type** Board Record	

Correspondents / Participants

Subject / Title

IBRD/IDA Joint Directors' Meeting - February 16, 1982 - Excerpt from Transcript of the Meeting - FY82 Financial and Operating Programs and Administrative Budgets: Midyear Review

Exception(s)

Additional Comments

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. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	22-Feb-17

Financial Report For November 1981

to the Management Committee

November Activities

1. In November the net loanable resources of the Bank increased by $1,987 million (five months FY82, $3,938 million), bringing the total to $38,267 million (table 1). Of this increase, $882 million (five months, $1,952 million) came from net new resources, and $1,105 million (five months $1,986 million) from the appreciation of non-dollar currencies. The break-down of the increases are as follows (five months in parentheses).

	Net New Resources	Exchange Adjustments	Total
Borrowings	777 (1779)	932 (1750)	1709 (3529)
Loanable Capital	2 (150)	66 (66)	68 (216)
Due IDA	-103		
Income	66		
Retained Earnings	- 37 (123)	91 (115)	54 (238)
Others	140 (-100)	16 (55)	156 (-45)
Total	882 (1952)	1105 (1986)	1987 (3938)

2. The November increase of $882 million in net new resources (five months $1,952 million) was utilized in net disbursements in loans for $367 million (five months, $1,709 million) and in increasing liquid assets for $515 million (five months $243 million). Exchange adjustements further increased loans by $1,020 million (five months $1,866 million) and liquid assets by $85 million (five months $120 million).

Five Months of FY82

3. Table 2 shows the monthly financial report (table 1c) comparing the actual figures with the Budget Paper forecasted figures. It shows the following differences as of the end of November.

	Budget Forecast	Actual	Difference
Liquid Assets	11,197	8,734	2,463
Loans Outstanding	29,594	29,533	61
Earning Assets	40,791	38,267	2,524
Borrowings	33,384	31,327	2,057
Loanable Capital	2,846	2,792	54
Due IDA	896	792	104
Reserves	3,610	3,483	127
Net Income	257	253	4
Retained Earnings	4,763	4,528	235
Others	-202	-380	178
Resources	40,791	38,267	2,524
Loan Income	991	932	-59
Investment Income	442	365	-77
Other Income	8	11	3
Administrative Expenses	102	120	-18
Interest on Borrowings	1,068	926	142
Financial Expenses	14	9	5
Net Income	257	253	-4

4. The main reason for the shortfall is due to the \$3,320 million difference in the earning assets between the June 30, 1981 actuals and the Budget Paper forecast for that date. The main elements of this difference are the \$2,101 million exchange adjustments, and the \$1,056 million shortfall in the FY81 net borrowings, after March 31, 1981, on the basis of which data the Budget Paper was prepared.

5. Table 3 shows the actual sources and applications of funds for the five months of the fiscal year, compared to the Budget forecasts. On this basis, the shortfall this fiscal year is principally due to the slippage of $1,114 million in borrowings, which impacted mainly on the movement of cash and investments.

	Budget Forecast	Actual	Difference
Sources			
Net Income	257	253	-4
Loanable Capital	90	150	60
Loan Repayments and Sales	738	650	-88
Borrowings	4,091	2,977	-1,114
Total	5,176	4,030	-1,146
Applications			
Loan Disbursements	2,500	2,361	139
Debt Retirement	1,244	1,198	46
Others	52	230	-178
Total	3,796	3,789	7
Difference	1,380	241	-1,139

6. The shortfall in net income for the five months of the fiscal year is due principally to the lower balances of earning assets corresponding to the Bank's interest-free resources in the earlier part of the period. Part of the shortfall has been covered by higher investment returns, and lower costs on borrowings.

MH#1:Mgmt.Commit.

IBRD: Earning Assets and Resources

Table 1

November 1981

(in million U.S. dollars)

	November Movements		Budget Forecast	Fiscal Year through November				May Forecast	Budget
	Transactions	Exchange Adjustment	for Month of November	Balance 6/30/81	Transactions	Exchange Adjustment	Balance 11/30/81	for end of November	Forecast for FY82
I. Summary Balance Sheet and Movements									
Liquid Assets	515	85	-19	8,371	243	120	8,734	11,197	10,285
Approved Loans				54,090			57,422	59,581	63,901
Less: Undisbursed				-28,132			-27,889	-29,987	-31,647
Loans Outstanding	367	1,020	358	25,958	1,709	1,866	29,533	29,594	32,254
(Disbursements)	(495)		(511)		(2,360)			(2,500)	(6,100)
(Repayments)	(-128)		(-153)		(-650)			(-725)	(-1,793)
(Sales)	(-0)				(-0)			(-13)	(-25)
Earning Assets	882	1,105	339	34,329	1,952	1,986	38,267	40,791	42,539
Borrowings Signed				27,864			31,557	33,384	34,721
Less: Delayed Deliveries				-66			-230	-	-
Borrowings Outstanding	777	932	265	27,798	1,779	1,750	31,327	33,384	34,721
(Settlement of new borrowings)	(855)		(331)		(2,976)			(4,091)	(7,100)
(Retirement)	(-78)		(-66)		(-1,197)			(-1,244)	(-2,916)
Paid-in Capital				3,661			2,856	4,044	4,631
Less: Receivables				-1,085			-1,064	-1,198	-1,663
Loanable Capital	2	66	30	2,576	150	66	2,792	2,846	2,968
(New subscriptions)	(-)		(-)		(10)			(-)	(-)
(Releases)	(2)		(30)		(141)			(90)	(212)
Due IDA				821			792	896	855
Reserves				2,859			3,483	3,610	3,614
Net Income				610			253	257	614
Retained Earnings	-37	91	43	4,290	123	115	4,528	4,763	5,083
Land and Buildings (-)				-104			-118	-108	-117
Accruals and Other Assets (-)				-1,097			-1,418	-1,204	-1,332
Miscellaneous Liabilities				866			1,156	1,110	1,216
Net Other Assets (-) and Liabilities	140	16	-4	-335	-100	55	-380	-202	-233
Total Loanable Resources	882	1,105	339	34,329	1,952	1,986	38,267	40,791	42,539
II. Income Statement									
Loan Interest	184		168	1,987			854	913	2,326
Commitment Fees	15		16	177			77	78	192
Interest on Investments	86		91	924			401	442	1,088
Capital Losses or Gains	14		-	-111			-36	-	-
Other Income	4		1	22			11	8	18
Administrative Expenses	-33		-19	-255			-120	-102	-283
Interest on Borrowings	-203		-220	-2,104			-926	-1,068	-2,692
Financial Expenses	-		-3	-30			-8	-14	-35
Grants	-		-	(-16)			-	-	-

Accounting Department
December 29, 1981

MH#1:Fin.Rept.

Table 2

IBRD: Table 1c

Comparison of Actual and Projected Results

($ Millions)

		Actual						Projected as per Budget Paper 5/5/81					
		FY1981	Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	FY1981	Jul.31	Aug.31	Sep.30	Oct.31	Nov.30
IBRD	Cash and Investments	8371	7742	7687	7731	8134	8734	9817	10587	10942	11371	11216	11197
	Receivable from Borrowings	66	268	422	357	500	230	-	-	-	-	-	-
	Receivable from Loans	54090	54432	54742	55448	56156	57422	55881	57578	58150	58304	58968	59581
	Receivable from Subscribed Capital	1085	1068	1056	953	1035	1064	1190	1190	1190	1192	1195	1198
	Land and Buildings, Net of Depreciation	104	104	108	112	115	118	102	103	104	106	107	108
	Accruals and Other Assets	1098	1160	1209	1325	1457	1418	1141	1149	1163	1188	1194	1204
	TOTAL ASSETS	64814	64774	65224	65926	67397	68986	68131	70607	71549	72161	72680	73288
	Due to IDA	821	818	798	795	896	792	817	813	808	904	902	896
	Undisbursed Loans	28132	28960	28483	28215	28010	27889	28049	29417	29637	29433	29732	29987
	Borrowings	27864	27148	28071	28834	30117	31557	30537	31601	32269	33014	33119	33384
	Miscellaneous Liabilities	866	829	770	856	1036	1156	1068	1074	1082	1091	1103	1110
	Paid-in Capital and Reserves	7131	7019	7102	7226	7338	7592	7660	7702	7753	7719	7824	7911
	TOTAL LIABILITIES AND CAPITAL	64814	64774	65224	65926	67397	68986	68131	70607	71549	72161	72680	73288
	Income from - Investments	813.3	64.9	130.5	189.1	265.1	364.8	810	83	170	260	352	442
	- Loans	2163.6	175.8	352.8	537.8	731.4	931.4	2203	193	383	586	787	991
	Other Income	22.1	2.3	2.9	5.7	7.0	11.1	19	1	3	5	7	8
	Less: Administrative Expenses	254.8	22.5	43.6	60.6	86.6	120.3	239	22	43	61	83	102
	Interest on Borrowings	2104.1	173.4	347.1	530.3	722.9	925.9	2137	206	416	631	848	1068
	Financial Expenses	30.0	2.7	5.4	6.7	8.0	8.5	33	3	6	8	11	14
	OPERATING INCOME BEFORE GRANTS	610.1	44.4	90.1	135.0	186.0	252.6	623	46	96	151	204	257
	Grants for External Programs	-	-	-	-	-	-	-	-	-	-	-	-
	NET INCOME	610.1	44.4	90.1	135.0	186.0	252.6	623	46	96	151	204	257
	NET EXCHANGE GAIN (+) OR LOSS (-)	-503.4	-81.4	-62.2	-21.2	+24.6	+115.1						

December 29, 1981

ACD-IBRD:TABLE.Ic/Rev(1-2)

Cumulative

IBRD: FY82 SOURCES AND APPLICATIONS OF FUNDS

($ millions)

(Budget Forecast in Parentheses)

I. Sources

	July	August	September	October	November
Net Income	(46) 44	(97) 90	(151) 135	(203) 186	(257) 253
Lendable Capital	0	9	(10) 129	(60) 149	(90) 150
Loan Repayments and Sales	(139) 95	(284) 222	(432) 353	(585) 522	(738) 650
Borrowings	(1,538) 300	(2,411) 860	(3,559) 1,479	(3,760) 2,122	(4,091) 2,977
Sub-total	(1,723) 439	(2,792) 1,181	(4,152) 2,096	(4,608) 2,979	(5,176) 4,030
Exchange Adjustments on:					
Lendable Capital	-58	-37	-16	-1	66
Reserves	-82	-62	-21	25	115
Borrowings	-754	-379	233	817	1,749
Sub-total	-894	-478	196	841	1,930
Total Sources	(1,723) -455	(2,792) 703	(4,152) 2,292	(4,603) 3,820	(5,176) 5,960

II. Applications

	July	August	September	October	November
Loan Disbursements	(468) 435	(965) 955	(1,471) 1,407	(1,989) 1,866	(2,500) 2,361
Debt Retirement	(474) 464	(679) 629	(1,082) 1,033	(1,178) 1,120	(1,244) 1,198
Payments to IDA	(4) 2	(9) 23	(13) 26	(15) 26	(21) 129
Changes in Others	(3) 100	(10) 218	(28) 268	(23) 240	(31) 100
Sub-total	(949) 1,001	(1,663) 1,825	(2,594) 2,734	(3,205) 3,252	(3,796) 3,788
Exchange Adjustments on:					
Loans	-827	-431	222	845	1,865
Others	0	-7	-24	-40	-56
Sub-total	-827	-438	198	805	1,809
Total Applications	(949) 174	(1,663) 1,387	(2,594) 2,932	(3,205) 4,057	(3,796) 5,597

III. Changes in Cash and Investments

	July	August	September	October	November
Budget Forecasts	(774)	(1,129)	(1,558)	(1,403)	(1,380)
Actual:					
Net Transactions	-562	-644	-638	-273	242
Exchange Adjustments	-67	-40	-2	36	121
Total	-629	-634	-640	-237	363

IV. Month-end Cash and Investments

~~End June~~ 6-30-81	July	August	September	October	November
(9817) 8371	(10,587) 7,742	(10,942) 7,607	(11,371) 7,731	(11,216) 8,134	(11,197) 8,734

+820

December 29, 1981

MH#1:IBRD.Budget.(1-3)

MEMO: November 1981

(In US$ millions)

I. Loans	Loans Approved Number	Loans Approved Amount	Disbursements Amount	Repayments Amount
IBRD to Countries	5 (25, 15.4%)	397 (2,103, 21.9%)	494 (2,334, 38.3%)	128 (650, 36.3%)
to IFC			(26, 22.6%)	
IDA Credits	5 (19, 17.9%)	48 (879, 23.8%)	90 (677, 30.8%)	3 (17, 37.8%)
	10 (44, 16.4%)	445 (2,982, 22.4%)	584 (3,037, 36.1%)	131 (667, 36.3%)

Note:

1/ Figures in parentheses denote the number and amounts of cumulative from July 1, 1981 to the current month and its percentage achieved for the November projection of FY82.
2/ Repayments include sales of participations.

II. Borrowing Program FY82

1. Delayed deliveries on FY81 program

As of 6/30/81	Exchange Adjustment	Settled
66	0	66

2. FY82 program

	Approved through 11/30/81	Exchange Adjustment	Settled	To be Settled
a. Approved	36 - 3,068	72	2,910	230
of which November	(5 - 562)	(0)	(332)	(230)
b. To be borrowed	48 - 5,128			
Total FY82 Program	84 - 8,196			

III. Capital and Retained Earnings

	November Movements	FY82 through November
1. Lendable Capital		
New Subscriptions	-	10 1/
Releases	2	141 2/
Exchange Adjustment	66	65
	68	216
2. Retained Earnings		
Net Income	67	253
Distributions from Dec IDA	-104	-130
Net Exchange Adjustments	91	116
	54	239
3. Total	122	455

Note:

1/ India
2/ U.S.A., Australia, Kuwait

December 29, 1981

MHF1:Memo.10/81

Lendings Approved (to Countries): FY82 through November

(Number of Projects and Amounts in US$ millions)

Sector	Total	Eastern Africa	Western Africa	East Asia & Pacific	South Asia	Europe, Middle East & N. Africa	Latin America & the Caribbean
	Bank Loans to Borrowers, by Region						
IBRD							
Power & Energy	3 - 370			1 - 170			2 - 200
Agriculture	5 - 359			1 - 45		2 - 122	2 - 192
Infrastructure 1/	9 - 524		3 - 134	2 - 120		3 - 230	1 - 40
Industry 2/	5 - 590				2 - 250	2 - 140	1 - 200
Social 3/	2 - 110	1 - 20					1 - 90
Nonproject	1 - 150		1 - 150				
Total	25 - 2,103	1 - 20	4 - 284	4 - 335	2 - 250	7 - 492	7 - 722

Sector	Total	Eastern Africa	Western Africa	East Asia & Pacific	South Asia	Europe, Middle East & N. Africa	Latin America & the Caribbean
	IDA Credits to Borrowers, by Region						
IDA							
Power & Energy	4 - 408.3		3 - 8.3		1 - 400		
Agriculture	6 - 315.8	2 - 20.3	1 - 19.5		3 - 276		
Infrastructure 1/	7 - 137.8	2 - 33.3	2 - 23.5	1 - 26	2 - 55		
Industry 2/	2 - 36.5				2 36.5		
Social 3/							
Total	19 - 898.4	4 - 53.6	6 - 51.3	1 - 26	8 - 767.5		

Notes:

1/ Infrastructure consists of Transportation, Telecommunications, Environment, Urbanization, and Tourism.
2/ DFC is included.
3/ Social sector consists of Education, Population, Health and Nutrition.

December 29, 1981

MHF1:App.Loans

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF NOVEMBER 30, 1981

($ Millions)

CONFIDENTIAL

	Actual FY1981	Cumulative from July 1, 1981 to Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1982 a/	Revised FY1982 b/
IBRD Cash and Investments c/	8371	7742	7687	7731	8134	8734								10285	10310
Receivable from Borrowings d/	66	268	422	357	500	230								-	-
Receivable from Loans e/	54090	54432	54742	55448	56156	57422								63901	62904
Receivable from Subscribed Capital	1085	1068	1056	953	1035	1064								1663	2139
Land and Buildings, Net of Depreciation	104	104	108	112	115	118								117	117
Accruals and Other Assets	1098	1160	1209	1325	1457	1418								1332	1310
TOTAL ASSETS	64814	64774	65224	65926	67397	68986								77298	76780
CALLABLE SUBSCRIBED CAPITAL o/	32953	32284	32441	32786	34180	35057								43596	52183
Due to IDA	821	818	798	795	896	792								855	753
Undisbursed Loans e/	28132	28960	28483	28215	28010	27889								31647	31704
Borrowings d/	27864	27148	28071	28834	30117	31557								34721	34069
Miscellaneous Liabilities	866	829	770	856	1036	1156								1216	1012
Paid-in Capital and Reserves f/	7131	7019	7102	7226	7338	7592								8859	9242
TOTAL LIABILITIES AND CAPITAL	64814	64774	65224	65926	67397	68986								77298	76780
Income from - Investments	813.3	64.9	130.5	189.1	265.1	364.8								1088	979
- Loans	2163.6	175.8	352.8	537.8	731.4	931.4								2518	2380
Other Income	22.1	2.3	2.9	5.7	7.0	11.1								18	23
Less: Administrative Expenses	254.8	22.5	43.6	60.6	86.6	120.3								283	292
Interest on Borrowings	2104.1	173.4	347.1	530.3	722.9	925.9								2692	2473
Financial Expenses g/	30.0	2.7	5.4	6.7	8.0	8.5								35	35
OPERATING INCOME BEFORE GRANTS	610.1	44.4	90.1	135.0	186.0	252.6								614	582
Grants for External Programs	-	-	-	-	-	-								-	23
NET INCOME	610.1	44.4	90.1	135.0	186.0	252.6								614	559 m/
NET EXCHANGE GAIN (+) OR LOSS (-) h/	-503.4	-81.4	-62.2	-21.2	+24.6	+115.1								-	+115
MEMO Operations approved - IBRD to Countries	140	15	16	18	20	25								162	162
- IDA	106	3	4	6	14	19								106	106
- Total j/	246	18	20	24	34	44								268	268
- IFC k/	56	4	8	9	11	12								61	61
Amt. approved - IBRD to Countries	8809	1278	1329	1514	1706	2103								9600	9600
- IDA Credits	3196	398	403	650	831	903								4100	3691 p/
- IFC Commitments	811	64	103	105	124	124								775	775
- Total	12816	1740	1835	2269	2661	3130								14475	14066
Disbursements - IBRD to Countries l/	5063	410	930	1381	1840	2334								6100	6100
- IDA	1878	143	251	423	587	677								2200	2200
- IFC	587	70	120	173	206	239								605	605
- Total	7528	623	1301	1977	2633	3250								8905	8905
Gross Borrowing Approved - IBRD	5069	466	1176	1720	2506	3068								7100	8200
Less: Debt Retirement	2721	464	629	1032	1119	1197								2916	2860
Net Borrowing	2348	2	547	688	1387	1871								4184	5340

ACD:IDA-T1:1c(1-3)

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF NOVEMBER 30, 1981

($ Millions)

CONFIDENTIAL

	Actual FY1981	Cumulative from July 1, 1981 to Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1982 a/	Revised FY1982 b/
IDA Investments	87	97	190	194	192	179								57	154
Unrestricted Cash, Notes and Receivables i/	8182	7996	7840	8506	8370	9837								12748	15083
Receivable from IBRD	821	818	798	795	896	792								855	754
Receivable from Credits e/	23842	24173	24188	24463	24649	24794								28411	27897
Restr. Sub. and Other Assets	338	338	338	327	325	323								367	350
TOTAL ASSETS	33270	33422	33354	34285	34432	35925								42438	44238
Undisbursed Credits e/	10965	11158	11068	11174	11198	11256								13496	12865
Contribution by Switzerland and Other	209	246	242	260	226	141								239	154
Transfers from IBRD f/	1469	1466	1466	1466	1567	1564								1555	1564 n/
Accumulated Net Income	(86)	(95)	(101)	(107)	(113)	(118)								(199)	(178)
Paid Sub. and Suppl.	20713	20647	20679	21492	21554	23082								27347	29833
TOTAL LIABILITIES AND CAPITAL	33270	33422	33354	34285	34432	35925								42438	44238
Income from - Investments	16.3	1.1	2.9	5.2	7.6	9.8								4	12
- Credits	90.2	8.1	16.3	24.6	33.0	41.6								101	105
Less: Administrative Expenses	180.1	17.1	34.2	51.3	68.4	85.6								192	211
Net Exchange Gain (+) or Loss (-)	+10.6	-1.8	-0.8	-0.1	-	1.7								-	2
NET INCOME (LOSS)	(63.0)	(9.7)	(15.8)	(21.6)	(27.8)	(32.5)								(87)	(92)
IFC Cash and Securities	8.1	21.1	22.3	32.6	26.4	30.9								6.0	6.0
Investments - Loans	1374.4	1371.5	1374.4	1367.4	1428.5	1430.0								1708.9	1654.9
- Equity	272.6	272.2	274.5	274.9	281.4	282.0								353.2	329.6
Less: Reserve Against Losses	61.5	62.7	63.9	65.5	66.7	67.9								79.1	75.4
	1593.6	1602.1	1607.3	1609.4	1669.6	1675.0								1989.0	1915.1
Accruals and Other Assets	2.3	4.6	6.1	(1.0)	5.9	0.2								6.0	6.0
TOTAL ASSETS	1595.9	1606.7	1613.4	1608.4	1675.5	1675.2								1995.0	1921.1
Undisbursed Commitments	535.4	510.3	492.3	475.4	546.6	543.4								725.2	671.4
Loans from IBRD and Others	563.2	560.1	560.1	560.6	631.6	721.6								840.4	849.4
Less: Undrawn Loans	54.0	29.0	29.0	29.0	109.0	199.0								232.4	255.4
Withdrawn Loans	509.2	531.1	531.1	531.6	522.6	522.6								608.0	594.0
Capital and General Reserve	551.3	565.3	590.0	601.4	606.3	609.2								661.8	655.7
TOTAL LIABILITIES AND CAPITAL	1595.9	1606.7	1613.4	1608.4	1675.5	1675.2								1995.0	1921.1
Operating Income	98.5	9.0	18.6	28.5	37.8	47.5								116.6	117.3
Less: Administrative Expenses	34.3	2.8	5.8	8.9	11.9	14.6								38.2	40.3
Charges on Borrowings	34.6	3.5	7.1	10.7	14.3	17.9								44.0	45.0
Income from Operations	29.6	2.7	5.7	8.9	11.6	15.0								34.4	32.0
Realized Gains on Sales	1.9	-	-	-	0.3	0.5								6.0	6.0
Provision for Losses	(19.0)	(1.2)	(2.4)	(3.6)	(4.8)	(6.0)								(13.6)	(13.6)
Recovery of Write-off	7.0	-	0.3	-	-	-								-	-
NET INCOME	19.5	1.5	3.6	5.3	7.1	9.5								26.8	24.4

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF NOVEMBER 30, 1981

($ Millions)

Notes

a/ Original projection of May 5, 1981. Non-dollar items translated into US dollars at rates prevailing on March 31, 1981.

b/ Non-dollar items translated into US dollars at rates prevailing on November 30, 1981

c/ Investments are shown on a settlement basis and include $293 million Special Reserve Fund Assets, which are not available for lending.

d/ Borrowings include delayed deliveries and undrawn portions.

e/ Amounts Receivable include undisbursed portions. Undisbursed amounts include both effective and non-effective portions.

f/ Transfers to IDA out of IBRD Net Income have been charged to IBRD reserves, and added to IDA's resources, in the year of authorization, i.e., the year following that in which the income was earned.

g/ Financial Expenses include amortization of issuance cost of borrowings and discount on sales of loans, if any.

h/ Net exchange gain or loss on revaluation is allocated directly to the reserves.

i/ IDA Unrestricted Cash, Notes and Receivables are from replenishment contributions of members, IBRD transfers and earnings.

j/ IBRD/IDA Number of Operations shows operations involving more than one loan agreement or both a loan and a credit as one IBRD operation.

k/ The number of IFC approvals excludes exercise of pre-emptive stock rights by IFC under $250,000.

l/ Distribution of loan disbursements to countries of $6,100 million by quarter:

1st quarter	$1,381 million
2nd quarter	1,605 million
3rd quarter	1,571 million
4th quarter	1,543 million

m/ IBRD RATE ASSUMPTIONS FOR FY 1982 TRANSACTIONS:

	Forecast Orig. %	Forecast Rev. %	Actual to date %
1. Average return on investments	9.75	11.1	11.0
2. Average interest rate on loan disbursements	8.2	8.2	8.2
3. Average cost of gross borrowings			
Weighted by amount and life	10.3	11.9	10.9
Weighted by amount only	10.6	12.0	11.5

n/ The amount shown is net of $80 million for grants for agricultural research and for control of onchocerciasis.

o/ Includes $23,491 million and $1,642 million callable from OECD and OPEC (excluding Nigeria and Indonesia) countries.

p/ Consists of:

Credits approved	SDR 764	$ 898 (1)
Balance of FY82 program	2366	2793 (2)
	SDR 3130	$ 3691

(1) US$ value of each credit as approved by the Board
(2) Exchange rate as of November 30, 1981.

Controller's
12/17/81

ACD:IBRD-T1:Ic(9-10)

INTERNATIONAL BANK FOR RECONSTRUCTIONS AND DEVELOPMENT

Investment Holdings as of November 30, 1981

(US$ million equivalent)

Maturity	United States Dollars	Euro Dollars	Pounds Sterling	Deutsche Mark	Euro Mark	Canadian Dollars	Italian Lire	Euro Lire	French Francs	Euro Francs	Japanese Yen	Belgian Francs	Netherland Guilders	Other	Total
Up to 6 mos	516.7	1,026.9	72.6	119.3	90.8	24.7		144.6	.6	108.0	201.1	16.0	134.6	84.0	2,539.9
6 mos to 1 yr	520.0	533.6	19.0	2.7						6.8		8.6		27.2	1,117.9
1 to 2 yrs	878.0	381.6		61.7		19.8			5.7			29.1	6.3	38.7	1,420.9
2 to 3 yrs	589.9	108.6		174.2		76.3	5.3			7.9		55.7	8.1	19.7	1,045.7
3 to 4 yrs	1,335.0	59.1	44.9	73.6		51.6			3.4	12.3		12.3	14.3	21.7	1,628.2
4 to 5 yrs	381.9		324.1	2.2					4.3			.1		18.0	730.6
Over 5 yrs															
Total US$ (Currencies)	4,221.5	2,109.8	460.6	433.7	90.8	172.4	5.3	144.6	14.0	135.0	201.1	121.8	163.3	209.3	8,483.2

Yields
(%)

Maturity	United States Dollars	Euro Dollars	Pounds Sterling	Deutsche Mark	Euro Mark	Canadian Dollars	Italian Lire	Euro Lire	French Francs	Euro Francs	Japanese Yen	Belgian Francs	Netherland Guilders	Other	Total
Up to 6 mos	12.84	16.21	14.57	11.94	10.58	16.83		25.69	10.63	17.07	6.41	10.28	12.10	26.45	14.96
6 mos to 1 yr	10.90	15.46	14.35	11.54						11.05		8.78		10.08	13.10
1 to 2 yrs	11.01	10.45		6.10		10.25			11.05			9.96	8.81	12.48	10.64
2 to 3 yrs	10.27	10.13		7.80		11.65	14.32			12.00		11.79	9.14	14.07	10.12
3 to 4 yrs	10.98	11.82	15.08	7.80		12.79			11.47	12.76		10.57	10.01	15.62	11.10
4 to 5 yrs	13.33		13.54	7.55					14.13			11.48		15.96	13.48
Over 5 yrs															
	11.32	14.54	13.89	8.72	10.58	12.57	14.32	25.69	12.08	16.08	6.41	10.82	11.64	18.55	12.53

NOTE: Amounts are amortized book values at date of the Table.
Yields are average annual weighted yields.
Other currencies are Austrian schillings, Brazilian cruzeiros, Danish kroner, Finnish Markkaa, Kuwaiti dinars, Saudi Arabian riyals, Swedish kronor, Swiss francs, United Arab Emirates dirhams, Venezuelan bolivares each are being less than one percent of holdings.

Controller's
12/17/81

FINANCIAL REPORT FOR OCTOBER 1981

TO THE MANAGEMENT COMMITTEE

1. In October the loanable resources of the Bank increased by $1,317 million (for the fiscal year to October $1,952 million) bringing the total at the end of the month to $36,281 million (Table 1). Of this October increase $556 million (fiscal year, $1,003 million) came from net borrowings, $20 million (fiscal year $149 million) from increases in loanable capital, $51 million (fiscal year $186 million) in net income. In October there were no disbursements from Due IDA (fiscal year, $26 million). Further, in the month, loanable resources were increased by a reduction in net other assets and liabilities of $29 million (fiscal year, increase of $241 million). In addition, the appreciation of non dollar currencies in the month increased the dollar value of resources by $661 million (fiscal year, $881 million).

2. The increase of $656 million in loanable resources (excluding exchange adjustments) in October (fiscal year, $1,071 million) was utilized in $290 million (fiscal year $1,344 million) in net disbursements on loans, and $366 million (fiscal year, -273 million) in increasing liquid assets.

3. As a result, the end of October figures are higher than the September forecasts for the month.

(a) Borrowings outstanding were higher by $357 million;

(b) Loanable capital was higher by $25 million;

(c) Retained earnings were higher by $51 million; and

(d) The adjustments for net other assets and liabilities were lower by $34 million.

Total loanable resources were thus $467 million higher than forecasted at the end of September.

It should be noted, however, that a large part of this increase is due to the $881 million increase due to the appreciation of non-dollar currencies.

In borrowings, despite a significant progress in October, we are still $236 million behind the program in new borrowings. We are $26 million ahead in loanable capital due principally to India's new subscriptions, and the further release of U.S. previous subscriptions. Net income is slightly lagging by $6 million due principally to trading losses on the investment portfolio.

Disbursements of loans are behind the September forecasts by $194 million. They are expected to pick up from November onward. The balance outstanding however is ahead by $421 million due to exchange adjustments. The balance of liquid assets is higher by $46 million.

4. For the fiscal year as a whole, the forecast based upon the end of October figures would indicate that the Bank would be at a level slightly higher than the September forecasts. Net income is expected to be $582 million (before grants for agricultural research).

5. IBRD and IDA disbursements and repayments, the details of the FY82 borrowing program and the itemization of movements in loanable capital and retained earnings are listed in Table 2. The regional and sectorial composition of IBRD and IDA lending is listed in Table 3.

November 25, 1981

IBRD: Earning Assets and Resources

October 1981

(in million U.S. dollars)

ACTUAL

Table 1

	October Movements			Fiscal Year through October			September	Forecasts for FY82			
	Transactions	Exchange Adjustment	Balance 6/30/81	Transactions	Exchange Adjustment	Balance 10/31/81	Forecast for end of October	May	July	September	(October)
I. Summary Balance Sheet and Movements											
Liquid Assets	366	38	8,371	-273	36	8,134	8,088	10,285	10,752	10,309	10,310
Approved Loans			54,090			56,157	55,909	63,901	61,271	62,309	62,904
Less: Undisbursed			-28,132			-28,010	-28,183	-31,647	-31,742	-31,732	-31,704
Loans Outstanding	290	623	25,958	1,344	845	28,147	27,726	32,254	29,529	30,577	31,200
(Disbursements)	(458)			(1,866)			(2,060)	(6,100)	(6,215)	(6,215)	(6,215)
(Repayments)	(-168)			(-522)			(-513)	(-1,793)	(-1,793)	(-1,793)	(-1,793)
(Sales)	(-0)			(-0)			(-1)	(-25)	(-25)	(-25)	(-25)
Earning Assets	656	661	34,329	1,071	881	36,281	35,814	•42,539	40,281	40,886	41,510
Borrowings Signed			27,864			30,118	29,261	34,721	32,578	33,516	34,069
Less: Delayed Deliveries			-66			-500	-	-	-	-	-
Borrowings Outstanding	556	585	27,798	1,003	817	29,618	29,261	34,721	32,578	33,516	34,069
(Settlement of new borrowings)	(643)			(2,121)			(2,357)	(7,100)	(8,314)	(8,314)	(8,314)
(Retirement)	(-87)			(-1,118)			(-1,127)	(-2,916)	(-2,780)	(-2,829)	(-2,800)
Paid-in Capital			3,661			3,759	3,743	4,631	4,117	5,273	5,289
Less: Receivables			-1,085			-1,035	-1,044	-1,663	-599	-2,148	-2,139
Loanable Capital	20	14	2,576	149	-1	2,724	2,699	2,968	3,518	3,125	3,150
(New subscriptions)	(10)			(10)			(-)	(-)	(-)	(-)	(-)
(Releases)	(10)			(139)			(123)	(212)	(942)	(565)	(565)
Due IDA			821			896	884	855	753	753	753
Reserves			2,859			3,393	3,348	3,614	3,288	3,348	3,394
Net Income			610			186	192	614	545	543	559
Retained Earnings	51	46	4,290	160	25	4,475	4,424	5,083	4,586	4,644	4,706
Land and Buildings (-)			-104	-11		-115	-111	-117	-117	-117	-117
Accruals and Other Assets (-)			-1,097	-320		-1,456	-1,213	-1,332	-1,198	-1,208	-1,310
Miscellaneous Liabilities			866	90		1,035	754	1,216	914	926	1,012
Net Other Assets (-) and Liabilities	29	16	-335	-241	40	-536	-570	-233	-401	-399	-415
Total Loanable Resources	656	661	34,329	1,071	881	36,281	35,814	42,539	40,281	40,886	41,510
II. Income Statement											
Loan Interest	178		1,987			670	665	2,326		2,146	2,181
Commitment Fees	16		177			62	63	192		199	199
Interest on Investments	84		924			315	264	1,088		1,027	979
Capital Losses or Gains	-8		-111			-50		-		-41	-
Other Income	1		22			7	12	18		23	23
Administrative Expenses	-26		-255			-87	-83	-283		-292	-292
Interest on Borrowings	-193		-2,104			-723	-719	-2,692		-2,461	-2,473
Financial Expenses	-1		-30			-8	-10	-35		-35	-35
Grants	-		(-16)			-	-	-		(-23)	(-23)

Accounting Department
November 23, 1981

Table 2

MEMO: October 1981

(In US$ millions)

I. Loans

Loans	Loans Approved Number	Loans Approved Amount	Disbursements Amount	Repayments Amount
IBRD to Countries to IFC	2 (20, 12.4%)	192 (1,706, 17.8%)	458 (1,840, 30.1%) (26,)	168 (522, 29.1%)
IDA Credits	8 (14, 13.2%)	181 (831, 22.9%)	164 (587, 26.7%)	3 (14, 31.1%)
	10 (34, 12.7%)	373 (2,537, 19.2%)	622 (2,453,)	171 (536, 28.5%)

Note:

1/ Figures in parentheses denote the number and amounts of cumulative from July 1, 1981 to the current month and its percentage achieved for the October projection of FY82.
2/ Repayments include sales of participations.

II. Borrowing Program FY82

1. Delayed deliveries on FY81 program

As of 6/30/81	Exchange Adjustment	Settled
66	0	66

2. FY82 program

	Approved through 10/31/81	Exchange Adjustment	Settled	To be Settled
a. Approved	31 - 2,506	49	2,055	500
of which October	(10 - 786)	(0)	(286)	(500)

b. To be borrowed

	54 - 5,704
Total FY82 Program	85 - 8,210

III. Capital and Retained Earnings

	October Movements	FY82 through October
1. Lendable Capital		
New Subscriptions	10	10 1/
Releases	10 3/	139 2/
Exchange Adjustment	14	-1
	34	148
2. Retained Earnings		
Net Income	51	186
Distributions from Due IDA	-	-26
Net Exchange Adjustments	46	25
	97	185
3. Total	131	333

Note:

1/ India
2/ U.S.A., Australia, Kuwait
3/ U.S.A.

November 25, 1981

MH#1:Memo.10/81

Table 3

Lendings Approved (to Countries): FY82 through October

(Number of Projects and Amounts in US$ millions)

Sector	Total	Eastern Africa	Western Africa	East Asia & Pacific	South Asia	Europe, Middle East & N. Africa	Latin America & the Caribbean
	Bank Loans to Borrowers, by Region						
IBRD							
Power & Energy	2 - 200						2 - 200
Agriculture	5 - 359			1 - 45		2 - 122	2 - 192
Infrastructure 1/	7 - 467		2 - 118	2 - 120		2 - 189	1 - 40
Industry 2/	5 - 590				2 - 250	2 - 140	1 - 200
Social 3/	1 - 90						1 - 90
Total	20 - 1,706		2 - 118	3 - 165	2 - 250	6 - 451	7 - 722

Sector	Total	Eastern Africa	Western Africa	East Asia & Pacific	South Asia	Europe, Middle East & N. Africa	Latin America & the Caribbean
	IDA Credits to Borrowers, by Region						
IDA							
Power & Energy	2 - 403.0		1 - 3.0		1 - 400		
Agriculture	6 - 315.8	2 - 20.3	1 - 19.5		3 - 276		
Infrastructure 1/	5 - 101.5	1 - 27.0	2 - 23.5	1 - 26	1 - 25		
Industry 2/	1 - 30.0				1 - 30		
Social 3/							
Total	14 - 850.3	3 - 47.3	4 - 46.0	1 - 26	6 - .731		

Notes:

1/ Infrastructure consists of Transportation, Telecommunications, Environment, Urbanization, and Tourism.
2/ DFC is included.
3/ Social sector consists of Education, Population, Health and Nutrition.

November 25, 1981

MH#1:App.Loans

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF OCTOBER 31, 1981

($ Millions)

CONFIDENTIAL

		Actual FY1981	Cumulative from July 1, 1981 to Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1982 a/	Revised FY1982 b/
IBRD	Cash and Investments c/	8371	7742	7687	7731	8134									10285	10310
	Receivable from Borrowings d/	66	268	422	357	500									-	-
	Receivable from Loans e/	54090	54432	54742	55448	56156									63901	62904
	Receivable from Subscribed Capital	1085	1068	1056	953	1035									1663	2139
	Land and Buildings, Net of Depreciation	104	104	108	112	115									117	117
	Accruals and Other Assets	1098	1160	1209	1325	1457									1332	1310
	TOTAL ASSETS	64814	64774	65224	65926	67397									77298	76780
	CALLABLE SUBSCRIBED CAPITAL o/	32953	32284	32441	32786	34180									43596	52183
	Due to IDA	821	818	798	795	896									855	753
	Undisbursed Loans e/	28132	28960	28483	28215	28010									31647	31704
	Borrowings d/	27864	27148	28071	28834	30117									34721	34069
	Miscellaneous Liabilities	866	829	770	856	1036									1216	1012
	Paid-in Capital and Reserves f/	7131	7019	7102	7226	7338									8859	9242
	TOTAL LIABILITIES AND CAPITAL	64814	64774	65224	65926	67397									77298	76780
	Income from - Investments	813.3	64.9	130.5	189.1	265.1									1088	979
	- Loans	2163.6	175.8	352.8	537.8	731.4									2518	2380
	Other Income	22.1	2.3	2.9	5.7	7.0									18	23
	Less: Administrative Expenses	254.8	22.5	43.6	60.6	86.6									283	292
	Interest on Borrowings	2104.1	173.4	347.1	530.3	722.9									2692	2473
	Financial Expenses g/	30.0	2.7	5.4	6.7	8.0									35	35
	OPERATING INCOME BEFORE GRANTS	610.1	44.4	90.1	135.0	186.0									614	582
	Grants for External Programs	-	-	-	-	-									-	23
	NET INCOME	610.1	44.4	90.1	135.0	186.0									614	559 m/
	NET EXCHANGE GAIN (+) OR LOSS (-) h/	-503.4	-81.4	-62.2	-21.2	+24.6									-	+25
MEMO	Operations approved - IBRD to Countries	140	15	16	18	20									162	162
	- IDA	106	3	4	6	14									106	106
	- Total j/	246	18	20	24	34									268	268
	- IFC k/	56	4	8	9	11									61	61
	Amt. approved - IBRD to Countries	8809	1278	1329	1514	1706									9600	9600
	- IDA Credits	3196	398	403	650	831									4100	3623 p/
	- IFC Commitments	811	64	103	105	124									775	775
	- Total	12816	1740	1835	2269	2661									14475	13998
	Disbursements - IBRD to Countries l/	5063	410	930	1381	1840									6100	6100
	- IDA	1878	143	251	423	587									2200	2200
	- IFC	587	70	120	173	206									605	605
	- Total	7528	623	1301	1977	2633									8905	8905
	Gross Borrowing Approved - IBRD	5069	466	1176	1720	2506									7100	8200
	Less: Debt Retirement	2721	464	629	1032	1119									2916	2860
	Net Borrowing	2348	2	547	688	1387									4184	5340

CONFIDENTIAL

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF OCTOBER 31, 1981

($ Millions)

	Actual FY1981	Cumulative from July 1, 1981 to Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1982 a/	Revised FY1982 b/
IDA Investments	87	97	190	194	192									57	154
Unrestricted Cash, Notes and Receivables i/	8182	7996	7840	8506	8370									12748	15078
Receivable from IBRD	821	818	798	795	896									855	754
Receivable from Credits e/	23842	24173	24188	24463	24649									28411	27897
Restr. Sub. and Other Assets	338	338	338	327	325									367	350
TOTAL ASSETS	33270	33422	33354	34285	34432									42438	44233
Undisbursed Credits e/	10965	11158	11068	11174	11198									13496	12865
Contribution by Switzerland and Other	209	246	242	260	226									239	154
Transfers from IBRD f/	1469	1466	1466	1466	1567									1555	1564 n/
Accumulated Net Income	(86)	(95)	(101)	(107)	(113)									(199)	(183)
Paid Sub. and Suppl.	20713	20647	20679	21492	21554									27347	29833
TOTAL LIABILITIES AND CAPITAL	33270	33422	33354	34285	34432									42438	44233
Income from - Investments	16.3	1.1	2.9	[illegible]	7.6									4	9
- Credits	90.2	8.1	16.3	24.6	3[illegible].0									101	105
Less: Administrative Expenses	180.1	17.1	34.2	51.3	68.4									192	211
Net Exchange Gain (+) or Loss (-)	+10.6	-1.8	-0.8	-0.1	-									-	-
NET INCOME (LOSS)	(63.0)	(9.7)	(15.8)	(21.6)	(27.8)									(87)	(97)

	Actual FY1981	Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1982 a/	Revised FY1982 b/
IFC Cash and Securities	8.1	21.1	22.3	32.6	26.4									6.0	6.0
Investments - Loans	1374.4	1371.5	1374.4	1367.4	1428.5									1708.9	1654.9
- Equity	272.6	272.2	274.5	274.9	281.4									353.2	329.6
Less: Reserve Against Losses	61.5	62.7	63.9	65.5	66.7									79.1	75.4
	1593.6	1602.1	1607.3	1609.4	1669.6									1989.0	1915.1
Accruals and Other Assets	2.3	4.6	6.1	(1.0)	5.9									6.0	6.0
TOTAL ASSETS	1595.9	1606.7	1613.4	1608.4	1675.5									1995.0	1921.1
Undisbursed Commitments	535.4	510.3	492.3	475.4	546.6									725.2	671.4
Loans from IBRD and Others	563.2	560.1	560.1	560.6	631.6									840.4	849.4
Less: Undrawn Loans	54.0	29.0	29.0	29.0	109.0									232.4	255.4
Withdrawn Loans	509.2	531.1	531.1	531.6	522.6									608.0	594.0
Capital and General Reserve	551.3	565.3	590.0	601.4	606.3									661.8	655.7
TOTAL LIABILITIES AND CAPITAL	1595.9	1606.7	1613.4	1608.4	1675.5									1995.0	1921.1
Operating Income	98.5	9.0	18.6	28.5	37.8									116.6	117.3
Less: Administrative Expenses	34.3	2.8	5.8	8.9	11.9									38.2	40.3
Charges on Borrowings	34.6	3.5	7.1	10.7	14.3									44.0	45.0
Income from Operations	29.6	2.7	5.7	8.9	11.6									34.4	32.0
Realized Gains on Sales	1.9	-	-	-	0.3									6.0	6.0
Provision for Losses	(19.0)	(1.2)	(2.4)	(3.6)	(4.8)									(13.6)	(13.6)
Recovery of Write-off	7.0	-	0.3	-	-									-	-
NET INCOME	19.5	1.5	3.6	5.3	7.1									26.8	24.4

ACD:IBRD-T1:Ic(5-7)

Ic. WORLD BANK GROUP: MONTHLY FINANCIAL REPORT AS OF OCTOBER 31, 1981

($ Millions)

Notes

a/ Original projection of May 5, 1981. Non-dollar items translated into US dollars at rates prevailing on March 31, 1981.

b/ Non-dollar items translated into US dollars at rates prevailing on October 31, 1981.

c/ Investments are shown on a settlement basis and include $293 million Special Reserve Fund Assets, which are not available for lending.

d/ Borrowings include delayed deliveries and undrawn portions.

e/ Amounts Receivable include undisbursed portions. Undisbursed amounts include both effective and non-effective portions.

f/ Transfers to IDA out of IBRD Net Income have been charged to IBRD reserves, and added to IDA's resources, in the year of authorization, i.e., the year following that in which the income was earned.

g/ Financial Expenses include amortization of issuance cost of borrowings and discount on sales of loans, if any.

h/ Net exchange gain or loss on revaluation is allocated directly to the reserves.

i/ IDA Unrestricted Cash, Notes and Receivables are from replenishment contributions of members, IBRD transfers and earnings.

j/ IBRD/IDA Number of Operations shows operations involving more than one loan agreement or both a loan and a credit as one IBRD operation.

k/ The number of IFC approvals excludes exercise of pre-emptive stock rights by IFC under $250,000.

l/ Distribution of loan disbursements to countries of $6,100 million by quarter:

1st quarter	$1,381 million
2nd quarter	1,605 million
3rd quarter	1,571 million
4th quarter	1,543 million

m/ IBRD RATE ASSUMPTIONS FOR FY 1982 TRANSACTIONS:

	Forecast Orig. %	Forecast Rev. %	Actual to date %
1. Average return on investments	9.75	11.1	10.1
2. Average interest rate on loan disbursements	8.2	8.2	8.2
3. Average cost of gross borrowings:			
Weighted by amount and life	10.3	11.9	11.0
Weighted by amount only	10.6	12.0	11.9

n/ The amount shown is net of $81 million for grants for agricultural research and for control of onchocerciasis.

o/ Includes $22,903 million and $1,601 million callable from OECD and OPEC (excluding Nigeria and Indonesia) countries.

p/ Consists of:

Credits approved	SDR 722	$ 850 (1)
Balance of FY82 program	2408	2773 (2)
	SDR 3130	$ 3623

(1) US$ value of each credit as approved by the Board.
(2) Exchange rate as of October 31, 1981.

Controller's
11/16/81

ACD:IBRD-T1:Ic(9-10)

INTERNATIONAL BANK FOR RECONSTRUCTIONS AND DEVELOPMENT

Investment Holdings as of October 31, 1981

(US$ million equivalent)

Maturity	United States Dollars	Euro Dollars	Pounds Sterling	Deutsche Mark	Euro Mark	Canadian Dollars	Italian Lire	Euro Lire	French Francs	Euro Francs	Japanese Yen	Belgian Francs	Netherland Guilders	Swiss Francs	Other	Total
Up to 6 mos	183.2	870.3	31.7	127.8	69.0	39.8		127.6	4.0	83.4	108.7	10.7	124.7	198.6	59.5	2,039.0
6 mos to 1 yr	264.4	531.7		2.7				11.4	.3	6.7		8.5			11.3	837.0
1 to 2 yrs	1,090.5	381.7		57.3		19.3			5.6			28.5	6.0		61.0	1,649.9
2 to 3 yrs	644.9	108.6		173.3		47.6	5.2			7.7		59.9	7.9		17.3	1,072.4
3 to 4 yrs	1,202.4	59.1	93.5	71.9		50.5			3.3	12.1		12.1	13.9		24.0	1,542.8
4 to 5 yrs	378.6	4.6	311.6	2.1					4.2			.1			.8	702.0
over 5 yrs															7.0	7.0
Total US$	3,764.0	1,956.0	436.8	435.1	69.0	157.2	5.2	139.0	17.4	109.9	108.7	119.8	152.5	198.6	180.9	7,850.1
								Yields (%)								
Up to 6 mos	15.67	16.86	15.20	12.15	11.14	18.34		27.78	10.26	22.41	6.85	15.29	12.38	23.29	12.98	16.86
6 mos to 1 yr	14.17	15.72		11.54				28.54	9.77	11.05		8.78			13.65	15.25
1 to 2 yrs	10.53	10.45		6.10		10.25			11.05			9.96	8.81		11.21	10.37
2 to 3 yrs	10.14	10.13		7.76		10.37	14.32			12.00		11.86	9.14		14.43	9.95
3 to 4 yrs	11.12	11.82	15.64	7.80		12.78			11.47	12.76		10.57	10.01		15.26	11.38
4 to 5 yrs	12.79	14.86	13.59	7.55					14.13			11.48			29.54	13.17
over 5 yrs															15.96	15.96
	11.38	14.77	14.15	8.86	11.14	13.15	14.32	27.84	11.66	19.92	6.85	11.36	11.85	23.29	13.06	12.97

NOTE: Amounts are amortized book values at date of the Table.
Yields are average annual weighted yields.
Other currencies are Austrian schillings, Brazilian cruzeiros, Danish kroner, Finnish Markkaa, Kuwaiti dinars, Saudi Arabian riyals, Swedish kronor, United Arab Emirates dirhams, Venezuelan bolivares each are being less than one percent of holdings.

Controller's
11/18/81

Mr. Clausen

487

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Managing Committee

DATE: October 9, 1981

1d

FROM: Moeen A. Qureshi MAQ

SUBJECT: Options to Alter IBRD/IDA Budget Perspectives

In my memorandum on "Restructuring IBRD Finances" of October 6 I referred to the alternative of curtailing significantly the growth in the projected level of the Bank's administrative expenses as a possible alternative to a 1/4% increase in commitment fees (which would be in addition to the application of the 1% front-end fee which I had recommended).

Limiting the growth in Bank expenses is in any case a necessary and desirable objective, especially in the present international environment, and measures which could increase the efficiency and effectiveness of the Bank within our assigned budgets have been a continuing concern of ours. What is proposed in the attached note, however, is to go a step further, and to consider fairly comprehensive actions that could yield progressive economies which, relative to our present budget projections, could reach some $100 million by 1986.

At my request, PAB has made a "first attempt" at identifying how and where such economies could be attained. This is not yet an action program, but it is a first cut at the problem. If the Managing Committee agrees that we should proceed in this direction, then a small group under PAB's leadership and including representatives from operations and from the support functions should proceed to develop a detailed action program for consideration by the Managing Committee before we embark upon the formulation of the FY83 budget in December.

Please note that the approach taken in this note is essentially evolutionary and generally predicated on the continuation of the Bank's current mode of operation and organizational structure. While it will require considerable effort and sensitivity at all levels to the need to economize, it does not conceive of any radical changes in the organizational structure, or in the way we conduct our business.

Attachment

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi

Date: October 8, 1981

FROM: Heinz Vergin, Director, PAB

SUBJECT: Management Options to Alter IBRD/IDA Budget Perspectives

1. Following up on the consideration of various options designed to safeguard satisfactory levels of IBRD net income (your memorandum to the Managing Committee of October 6), this note identifies steps which could be taken to contain the growth of IBRD/IDA administrative expenses below currently projected levels. It is important to emphasize at the outset that the options explored in this note are essentially evolutionary and predicated on the continuation of the Bank's basic mode of operation and organizational structure. In presenting these options, it is also necessary to emphasize that we do not want to be misunderstood to suggest that the budget per se can or should be used to effect the requisite changes in the Bank's cost structure and in management and staff behavior. The options that we have identified require detailed study and any resultant actions will require careful management. The actions can be reinforced by budgetary constraints, but will require initiatives by Operational managers, and by the Personnel, Compensation, Organizational Planning, Programming and Budgeting and Information Management functions.

Current Budget Perspectives

2. The IBRD/IDA budget perspective for FY82-86 which is currently being used in the Bank Group's longer-term financial planning assumed:

- 4.3% average real growth based on an extrapolation of our present cost structure. This assumed no major shift in country assistance strategies, sector mix of lending, operating policies, procedures and standards;

- price developments (including salaries) which are geared closely to the currently projected movements of the GDP deflator for the US economy. On this basis, annual rates of price escalation which taper from 11% in FY83 to 8% in FY86 have been factored into the current budget perspective.

3. The following table summarizes the program cost developments that were projected to contribute to this overall budget perspective:

Current IBRD/IDA Perspective
($ millions)

	FY82 Program in FY82 Prices	Volume Increases Amt	Volume Increases Average Annual Rate	FY85 Projection in FY82 Prices	Price Increases 1/ Amt	Price Increases 1/ Average Annual Rate	FY85 Projection in FY85 Prices	Resultant IBRD Share in FY85 2/ %	Resultant IBRD Share in FY85 2/ Amount
1. Board	16	2	4.3	18	6	10	24	63	15
2. Operations & Operations Related 3/	344	48	4.3	392	125	10	517	63	326
3. Support Functions	110	15	4.3	125	40	10	165	63	104
4. Non-Banking Functions									
(a) EDI, In-House Research, External Research Programs and CGIAR Secretariat	29	3	3.0	32	10	10	42	63	26
(b) Research Grants and Special Programs	23	3	5.0	26	11	10	37	100	37
5. Contingency Provision	4	-	-	4	1	10	5	63	3
IBRD/IDA Total	526	71	4.3	597	193	10	790	65	511

1/ On average about 66% of the provision for price increases relate to projected increases in salary and salary-related benefits.
2/ The IBRD/IDA cost-sharing provides that IDA is to be charged a share of total IBRD/IDA administrative expenses based on IDA's percentage of the total number of IBRD/IDA operations during the budget year, the year preceding it, and the year following it.
3/ Legal, Operations Evaluation and DPS excluding DPS-research.

The Options

4. Based on the same set of planning assumptions regarding growth in the volume of IBRD and IDA lending which underlie the current budget perspective, we have attempted to identify management options to contain growth in administrative expenses. In assessing the possible budgetary impact of these options, we have focused on FY85 as the first year in which the full benefit of management actions taken in FY82 and FY83 can be expected to accrue. If significant savings are to be realized by then, action to contain budget growth needs to be taken in four major areas:

- Operating Programs
- Support Programs
- Non-banking Programs
- Salary and Benefit Policies

5. Operating Programs. A first pass aimed at identifying areas for potential savings suggests that the following objectives become imperative:

(i) The average IBRD loan size achieved in recent years needs to be maintained.

(ii) The cost of the technical assistance which is presently routinely extended through loan processing and supervision to our more capable borrowers, particularly in the middle and higher-income countries, has to be reduced or more equitably shared. Where such adjustments are not feasible, technical assistance financed by UNDP or by project components, should be used to substitute, wherever possible, for Bank staff assistance financed through the budget.

(iii) Loan processing and supervision procedures, and the associated documentation requirements and conventions, need to be analyzed in detail with a view to reducing their elapsed time and staff input requirements. The objective of this examination would be to identify possible savings in time and staff effort that do not impair the essential developmental quality of the loan. In the same context, the effects of the Bank's quality assurance functions on the cost of the project cycle should be examined.

(iv) The Bank's multiple systems for programming and budgeting need to be examined as to their impact on the cost of operational management and administration.

(v) Investments need to be made in upgrading data management and computing support for the Bank's managers and operational staff.

6. While these objectives have been identified as essential to contain budget growth and create room for new operational initiatives, the exact potential for savings needs to be assessed with great care to safeguard the quality of the Bank's operations. However, overall it would not seem unreasonable to explore a scenario which envisages that the currently planned growth in lending and other operational work could be accommodated within existing levels of operational and operations-related staffing through decisive action in the areas identified above. For instance, a 10%-15% reduction in the average cost of the Bank's project cycle, implemented over three years and coupled with maintenance of average loan size, could create sufficient savings to accommodate planned growth in lending and modest growth in other

operational work within the current operational staffing level, thus resulting in a reduction in FY85 expenses to the IBRD of the order of \$50-55 million. We recognize, however, that the requisite redeployment of staff resources within the current operational and operations-related staffing levels may encounter substantial adjustment problems that require earliest attention.

7. Support Programs. Growth in the budget of the support programs has in the current budget perspectives been projected to match budget growth in operations. In the short term, measures taken to contain operational expenses would result in increased costs in such key support functions as personnel, compensation, organization planning, computing, etc. with relatively little savings likely for one or two years. Beyond FY84, however, it should be possible to limit further growth in the cost of the support programs. While potential savings in these areas are somewhat conjectural, reductions in IBRD expenses in FY85 of the order of \$4-5 million would not be an unreasonable objective.

8. Non-Banking Functions. Under present assumptions the non-Banking functions of the institution (Research, Economic Development Institute), and various grants (Agricultural Research, Tropical Disease Research, Control of River Blindness) are projected to cost IBRD about \$63 million by FY85, against \$58 million in FY82. These costs have not been projected to increase substantially in real terms and short of a fundamental reconsideration of the Bank's role in these areas the potential for savings is not great. There is the prospect of seeking reimbursement for EDI expenses from certain countries, but again, the potential savings to the budget are small. A concerted effort to restrain real growth in these programs and to seek reimbursement where possible, could reduce the projected FY85 expense to IBRD by about \$2-3 million.

9. Salaries and Associated Benefits. This component accounts for \$344 million or two-thirds of total IBRD/IDA expenses in FY82. The IBRD share of the total some (\$204 million) will, under current assumptions, rise to about \$300 million by FY85. This assumes that the salary adjustments will be set at about the projected rate of inflation and that "grade creep" and continuation of separate merit increase will, as in the past, contribute on average 1% growth in average real salaries. A different set of assumptions, which still needs to be reviewed with the Compensation Department, would envisage that Bank salaries, following recently established policies, will be set to parallel the salary developments in the specified set of comparator organizations. In this case it would be our best guess that market-oriented salary developments and budgetary stringency in the comparator organizations will be likely to give us an escalation in Bank salaries which in the next two to three years will lag by 200 basis points behind the US-GDP Deflator, with this lag narrowing over time. Such a response in salary policy to the Bank's projected environment would reduce the projected FY85 level of the IBRD's salary and benefit budget by as much as \$20 million. Further savings are likely to accrue to the IBRD from reductions in U.S. tax reimbursements (\$7-9 million). Finally,

improvements in Staff Retirement Plan portfolio performance and reduced contributions to the Retirement Plan are now projected to bring savings of another $5-6 million.

Conclusions and Recommendations

10. We conclude that options with the potential to reduce FY85 IBRD administrative expenses from their currently projected levels by $80-100 million exist and deserve to be explored in greater detail. Most of these options ought to be examined in any case; however, the need to safeguard satisfactory levels of IBRD net income gives added urgency to this undertaking. I recommend that the Managing Committee establish a task force to further define these options and to formulate an action program for Managing Committee consideration.

cc: Mr. Gabriel (o/r)

agree!

HV/NN/RT:ov

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

REVISED

TO: Managing Committee (Through Mr. Moeen Qureshi)

DATE: October 6, 1981

FROM: Task Force on Loan/Credit Terms

SUBJECT: IBRD Front-End Fees

1c

1. The Bank currently faces two inter-related income problems. The first is how to respond to the decline in net income now projected for the next few years. It is generally agreed that some form of front-end fee is called for. The issue is what form it should take.

2. The second problem is how to deal with the interest rate risk which the Bank carries. Here again, there is general agreement that the loan charges on new commitments need to be made more flexible. Again the issue is how to do it.

3. While these two problems are inter-related only the first is considered in this report. The Task Force is working to refine the options for handling the latter problem, and a preliminary report on the subject is being distributed separately.

A. Front-End Fees

Background

4. The following table shows the current "best estimate" projection for IBRD net income over the next few years as compared with the projection prepared last April and shown in the budget document.

IBRD Net Income Projections*
($m)

	FY81	FY82	FY83	FY84	FY85	FY86
April 1981 Projection	623	614	604	619	627	662
Latest Projection	610	568	433	386	360	390
Decline	13	46	171	233	267	272
Memo Item: Grants for External Research Program 1/		23	27	31	37	43

1/ Throughout this report net income figures are shown before allowance for external grants. This is done to make the figures comparable with earlier projections.

* Note: The projections assume continuation of the Bank's present lending rate policy.

A detailed explanation of these changes is attached as Annex 1 to this report. In broad outline what has happened is that the Bank has been hit simultaneously by five adverse developments:

(a) Administrative Expenses. Higher staff compensation approved by the Board last June. Allowing for indirect effects (i.e., the fact that losses in the early years reduce cash balances in later years) the administrative expense decision accounts for roughly 10% of the overall problem.

(b) Exchange Rate Changes. The sharp appreciation of the US dollar vis-a-vis the other currencies the Bank holds has reduced the volume (measured in dollars) of income earning assets more than the volume of interest-bearing liabilities. Again allowing for indirect effects, this accounts for about 25% of the decline.

(c) Higher Interest Rates. The higher borrowing costs assumed (up 0.8% in FY82, and up 1.0% in FY83 through FY86) are more than offset by the assumed higher return on liquid assets in FY82 (11.4% for the rest of the year). But in subsequent years the negative impact grows rapidly from less than $20 million in FY83 to nearly $80 million in FY86. This accounts for about 30% of the decline.

(d) Phasing of Borrowing. The shortfall in FY81 borrowing of over $1 billion is assumed to be fully made up in FY82 at borrowing costs that are nearly 250 basis points higher. This penalizes projected net income by about $25 million a year and accounts for a little less than 15% of the decline.

(e) Revised Income from Loans. The April projection assumed that the average interest rate on loans outstanding at the end of FY81 would be 7.67%. The average turned out to be 7.54%. This change accounts for 20% of the decline.

Options

5. The Task Force has considered several options for responding to the projected decline in net income:

Option #1 - Impose a front-end fee of 1% on all new loans. While many variants may be considered, the versions shown in the table below assumes that the fee is due and payable at loan signing, but that it is actually collected in two payments at 3 months and 9 months after loan signing.

Option #2 - Impose a front-end fee of 1.25% on all new loans.

Option #3 - Impose a front-end fee of 1% and increase the commitment fee to 1.25%.

Option #4 - Impose a front-end fee of 1% now and make the commitment fee variable up to 1.5%. There would be no change in the 0.75% commitment fee at present, but new loans would provide for changes in the future up to 1.5% should the costs of carrying liquidity widen.

The implications of these options for projected net income are as follows:

Alternative IBRD Net Income Projections*
($m)

	FY82	FY83	FY84	FY85	FY86
Front-End Fee of 1%	606	545	520	517	572
Front-End Fee of 1.25%	616	573	553	557	617
Front-End Fee of 1% and Commitment Fee of 1.25%	622	601	630	681	789

6. The case for some form of front-end fee is straightforward. It is a practical way of offsetting the projected decline in income over the next two or three years. Changes in the lending rate itself won't do the job, since loans disburse too slowly. A flat front-end fee is preferable to an increase in the commitment fee because it generates additional income more quickly. The Bank's commitment fee is already high in relation to commercial practice and has in recent years greatly exceeded the Bank's actual costs of carrying liquidity. Moreover, an increase in the commitment fee has its major impact after FY86 when projected net income already shows a rapid rise. Finally, a service charge (or management fee) on the order of 1% is common in commercial loan transactions and is already in force at the IDB (though the IDB does not collect it all in the first year after signing).

* Note: These projections assume continuation of the Bank's present lending rate policy.

Incremental Impact of Front-End Fee and Commitment Fee Increase
($m)

	FY82	FY83	FY84	FY85	FY86
1% Front-end Fee	38	112	134	157	182
1/2% Increase in Commitment Fee	14	56	110	164	217

7. The choice between a fee of 1.0% and 1.25% hinges on the view one takes about the adequacy of the income levels shown in the latest projections. If the objective is to minimize the decline in net income over the next few years, the higher fee will tend to be preferred. If, on the other hand, the income levels earned in the past two years are regarded as departures from a long-term trend (and attributable to especially favorable circumstances), then the lower fee will tend to be preferred.

Trends in the Level and Adequacy of Net Income*

	FY72	FY74	FY76	FY78	FY80	FY82	FY84	FY86
"Role of the Bank Projections (1977)								
Net Income ($m)	183	216	220	255	368	466	574	743
Interest Coverage	1.48	1.35	1.23	1.18	1.18	1.16	1.15	1.15
April 1981 Projections								
Net Income ($m)	183	216	220	238	588	614 a/	619 a/	662 a/
Interest Coverage	1.48	1.35	1.23	1.15	1.30	1.23	1.17	1.14
Latest Projections: Fee 1.0%								
Net Income ($m)	183	216	220	238	588	583 a/	489 a/	529 a/
Interest Coverage	1.48	1.35	1.23	1.15	1.30	1.24	1.13	1.10
Latest Projections: Fee 1.25%								
Net Income ($m)	183	216	220	238	588	593 a/	522 a/	574 a/
Interest Coverage	1.48	1.35	1.23	1.15	1.30	1.24	1.14	1.11

a/ After allowance for grants to external research programs.

8. A second factor affecting the choice is the confidence one assigns to the assumptions underlying the latest projections. The

* Note: These projections assume continuation of the Bank's present lending policy.

cost of borrowing for FY82 is assumed to average 11.6% (11.5% coupon), and to decline to 10.75% in FY83, 10.25% in FY84 and 9.75% in FY85. In light of the rapid escalation in borrowing cost estimates over the past three months, it is certainly possible to regard these assumptions as being too optimistic. Annex 2 shows the impact of alternative higher interest rate assumptions. What they suggest is that higher rates this year (FY82) hurt net income beginning in FY83 whereas higher rates next year and the year after have an initially favorable impact on income followed by sharp declines thereafter. Thus, pessimism about this year's borrowing costs supports the case for a higher front-end fee, while pessimism about future borrowing cost adds to the urgency of making new loan commitments at variable interest rates and also makes an increase in the commitment fee seem relatively more attractive (because of its strong impact after FY84).

9. While it is natural in the current environment to be especially sensitive to the down-side risks, it should not be forgotten that a significant part of the decline in projected net income is attributable to exchange rate changes which could quite easily be reversed (as the experience of recent days shows). Also the impact of exchange rate changes on net income needs to be interpreted cautiously. Exchange rate changes affect the need for income as well as its level. In fact, interest on borrowings is initially affected to roughly the same extent as net income, so that the interest coverage ratio remains about the same, if only exchange rate changes are considered.

10. Another factor to consider in the choice among alternative levels of front-end fees is the reaction of the Board. A fee in excess of 1% could well be perceived in the Board as an over-reaction to what are admittedly very difficult circumstances at the moment. Our past statements about net income being planned at a relatively high level precisely so that it can act as a buffer in the event of adverse interest rate movements will be cited. More generally, the posture taken by management on this issue--and particularly the weight given to net income as a barometer of performance and as a key to financial market acceptance of IBRD bonds--is likely to be interpreted as having broader significance. In this context, either option #2 or option #3 would signal a rather clear departure from past practice and, as such, would presumably be welcomed by some of the major donors and be a cause of concern to the Part II countries and some Part I countries. On the other hand, the negative reaction of the Part II countries could be even worse if a fee of 1% were imposed now only to be followed by another increase in a few months time. The Task Force members agreed that it would be far better to handle a painful adjustment in one step rather than two. If the correction proves to be excessive, it would be simple to reduce the fee subsequently, even for loans already signed.

11. Option #4 is something of a middle ground. It limits the corrective action taken now, but puts the Bank in a better position in the next few years to respond quickly in the event the assumptions underlying the current "best estimate" projection prove to be too optimistic. The notion of a variable commitment fee also dovetails nicely--in the longer term--with some of the options for introducing greater variability in the lending rate. The key point is that, even assuming the lending rate is linked closely to the cost of borrowing, the Bank is not protected against a sharp decline in the return on liquid assets. In a deflationary environment, short rates could fall much more sharply than long rates, thus widening the cost of carrying liquidity. A variable commitment fee would put the Bank in a good position to respond to such an eventuality.

Form of Front-End Fee

12. The Task Force considered whether a front-end fee should be a simple percentage of the loan amount (1% or 1.25%) or should instead be more closely related to the Bank's processing costs. A cost-based fee would be much more burdensome for small borrowers, since it costs the Bank roughly the same amount to process a $20 million project as a $100 million project. For this reason, and on grounds of simplicity, the dominant sentiment in the Task Force was in favor of a flat percentage fee. It is recognized that this implies a degree of cross-subsidization: with large borrowers subsidizing small borrowers.

13. The impact of a slower collection pattern - perhaps along the lines of IDB, which is over three years - has also been considered. If, the fee is considered due and payable at the date of signing, it can be counted as income in full on that date even though it is actually paid to the Bank somewhat later. How much later is a matter which could be disputed, but Controller's believes that, as long as payment is received within less than a year after signing, the external auditors would allow the full amount to be booked at the time of signing. The following table shows the impact of alternative timing assumptions both on net income and on the effective interest rate. The current effective interest rates for the IDB and ADB are also shown. We understand that the IDB has no plans to change its rate before January 1982.

Implications of Alternative Timing for Service Charge
($m)

	FY82	FY83	FY84	FY85	FY86	Effective Interest Rate (Lending Rate = 11.6%)
Rapid Collection (in first year)	38	112	134	157	182	13.17%
IDB Pattern	10	48	93	134	157	13.12%
Memo Items: IDB						11.05%
AsDB						11.13%

"Sweeteners"

14. Various proposals were made in the Task Force for making the establishment of a service charge less unpalatable to borrowers. The issue for management is which, if any, of these proposals should be pursued:

Financing the service charge in the loan. This would be attractive to borrowers in that it would avoid an immediate cash outflow. It would have a negative impact - albeit minor - on the Bank's cash flow.

Offsetting reduction in the "spread" on lending. To the extent the current 50 basis point spread includes an allowance for administrative expenses, there is a logical case for reducing the spread when a service charge is established. To offset a rapidly collected 1% service charge and leave the effective interest rate unchanged, the spread would need to be reduced to about 25 basis points. This would of course reduce loan income in later years, the main effects being felt after FY86.

Sharing the burden of adjustment more widely. There is what may be called a problem of "intergenerational equity" inherent in the establishment of a service charge on new loans to offset the losses on old loans. If the mix of old borrowers and new borrowers were the same, this problem could be ignored. But they are not. One way of dealing with this problem would be to urge borrowers who have now graduated to accelerate the repayment of old (low-interest rate) loans. Among the countries principally affected would be Japan, Ireland, Israel, Venezuela and Spain. (Iran, while important, is assumed to be unapproachable.)

The proposal for an offsetting reduction in the 50 basis-point spread needs to be considered in the context of prospective changes to a more variable lending rate. The report on Variable Loan Charges shows that adoption of a more variable lending rate would penalize income very substantially over the next several years if borrowing costs decline as projected. Thus, a reduction in the spread would seem unrealistic at least for the time being.

Summary of Issues

15. To sum up, guidance is requested from the Managing Committee on:

-- which of the four options with respect to the level of front-end fees is preferred?

-- whether it is agreed that the fee should take the form of a flat percentage due and payable at the date of loan signing?

-- whether the proposed front-end fee should be made more palatable to borrowers by any of the devices listed above?

Attachments
DJW:ba

Sources of Decline in Projected Net Income a/
($m)

	FY83	FY84	FY85	FY86
Higher Administrative Expense	17	20	21	25
Deferral of Planned Borrowing	24	25	25	25
Re-estimate of Loan Rate	36	36	36	36
Exchange Rate Effects	43	43	45	45
Changed Interest Rate Assumption	17	49	62	78
Changes in Projected Cash Balance b/	34	58	77	91
Total	171	233	267	272
	===	===	===	===
Net Income (before grants)	433	386	360	390
Less: External Grants	27	31	37	43
Net Income (after grants)	406	355	323	347

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a/ The detailed figures do not add to the totals shown because of indirect effects other than those which alter cash balances. The differences are less than $5 million each year through FY85, but amount to $28 million in FY86.

b/ Changes in the level of cash and securities are what trigger the indirect income effects. Reduced income due to any one of the primary causes lowers cash and securities.

Interest Rate Sensitivity Analysis

The attached table summarizes four sensitivity tests. By comparing the results of different tests it is possible to assess the impact of:

(a) rates remaining high for a longer period than currently assumed. A one-year delay is captured by a comparison of Case I with the Base Case; a two-year delay by a comparison of Case IV with the Base Case;

(b) rates going higher before they start to decline. The impact of a higher rate in FY82 is captured by a comparison of Case II and Case I; the impact of a higher rate in FY83, by a comparison of Case III and Case I; the impact of higher rates in the outer years, by a comparison of Case IV and Case I.

The effects of greater interest rate changes than those shown (e.g. an increase to 13.5% in FY82) can be estimated by simple extrapolation of the results shown (e.g. +$46 million in FY82 instead of +$23 million).

The sensitivity tests have not tried to capture the effects of variations in the cost of carrying liquidity (i.e. different spread between borrowing cost and return on cash and securities). This issue needs to be considered separately together with potential Bank responses, such as changes in the level of the commitment fee.

ANNEX 2
Table

Interest Rate Sensitivity Analysis

	Assumptions (%)					Income Effects ($m)			
	FY82	FY83	FY84	FY85		FY82	FY83	FY84	FY85
Base Case									
Borrowing Cost	11.5	10.75	10.25	9.75					
Lending Rate	11.4	11.50	11.00	10.5					
Return on Securities	11.4*	10.35	9.85	9.35					
Case I									
Borrowing Cost	11.5	11.50	10.25	9.75	Chg. in Int. on Debt		25	59	57
Lending Rate	11.4	12.25	11.00	10.5	Chg. in Loan Income		1	7	19
Return on Securities	11.4*	11.00	9.85	9.35	Chg. in Inc. from Securities		+73	+3	-2
					Chg. in Net Income		+49	-49	-40
Case II									
Borrowing Cost	12.5	11.50	10.25	9.75	Chg. in Int. on Debt	35	102	133	127
Lending Rate	11.8	12.25	11.00	10.5	Chg. in Loan Income	1	4	16	36
Return on Securities	12.0*	11.00	9.85	9.35	Chg. in Inc. from Securities	46	71	-7	-6
					Chg. in Net Income	+12	-27	-124	-97
Case III									
Borrowing Cost	11.5	12.50	10.25	9.75	Chg. in Int. on Debt		70	147	142
Lending Rate	11.4	13.25	11.00	10.5	Chg. in Loan Income		3	15	45
Return on Securities	11.4*	12.00	9.85	9.35	Chg. in Inc. from Securities		+186	+6	-2
					Chg. in Net Income		+119	-126	-99
Case IV									
Borrowing Cost	11.5	11.50	11.00	10.0	Chg. in Int. on Debt		25	93	139
Lending Rate	11.4	12.25	11.75	10.75	Chg. in Loan Income		1	8	27
Return on Securities	11.4*	11.00	10.60	9.60	Chg. in Inc. from Securities		+73	+93	+43
					Chg. in Net Income		+49	+8	-69

* Remainder of year

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi

DATE: October 6, 1981

FROM: Task Force on Short-Term Borrowing

SUBJECT: New Sources of Borrowing

1b

Summary of Issues for Management

1. This report proposes that the Board be asked to approve in principle borrowings of up to $2 billion in the form of short-term or variable-rate instruments during FY82.

2. The issues examined in the report include:

-- timing: Should short-term or variable-rate borrowing begin now or be deferred until the proposed variable lending rate system becomes effective (in the sense that variable rate loans are disbursed)? An early start is recommended in order to assure achievement of this year's borrowing program and avoid having year-end liquid holdings drop below current plans.

-- choice of instruments: Which form of borrowing is to be preferred: short-term instruments (such as discount notes) or longer maturity instruments (such as bank loans or floating-rate notes) at variable rates? While there is a preference for short-term instruments --because they avoid payment of intermediation costs-- the Board would be asked for a general authority embracing both types of borrowing.

-- effect on Bank finances: Should short-term borrowing be conceived--and presented to the Board--as an addition to the $8 billion of borrowings planned for FY82 or as a partial substitution? The most likely outcome is that variable-rate borrowings will be partly substitutes and partly additions to current plans. It is not possible to be precise about the nature of the year's borrowing program in advance, particularly in light of present conditions in the capital markets.

Background

3. The Board memorandum circulated last December on "Means of Financing"1/ pointed out that the traditional sources of IBRD financing, namely the medium- to long-term fixed-rate markets, have failed to keep pace with the growth in financial markets generally. This relative shrinkage of the fixed-rate markets has been due to the effects of inflation on the capital values of fixed-rate securities. It has increased the risk that the Bank may not be able to borrow the necessary volume of funds from its traditional sources and has thus eroded

1/ "Possible Means of Finance an Expanded IBRD/IDA Lending Program". December 18, 1980. See especially para. 44.

the Bank's funding flexibility. In recent months, the outlook for bond markets worldwide has worsened. It is now distinctly possible that the Bank will not be able to fund its projected lending at an acceptable cost to borrowers using fixed-rate borrowing alone. This is the reason for considering whether the Bank should begin to tap new types of funds, particularly the short-term and floating-rate markets.

4. The Task Force proposes that the Board be asked to approve in principle borrowings of up to $2 billion in the form of short-term or variable-rate instruments during this fiscal year, as a first step that could in the future lead to substantial and sustained use of this type of borrowing. We believe that this approach will enable the Bank to establish a meaningful presence in the variable-rate market, while at the same time avoiding undesirable and costly stress on the fixed-rate markets for IBRD securities during FY82. The income effects of the proposal are likely to be small in FY82. It is assumed that there will be a simultaneous change in the Bank's lending rate policy.

How and When to Begin

5. The question of how and when to begin variable-rate borrowing may be considered under three headings: timing, amount and type of instrument. As to timing, we recommend that the Bank start tapping these new sources of funds as soon as possible. The main reason for this recommendation is that we think it is unlikely that the Bank can borrow more than $5 billion to $6-1/2 billion in FY82 if we continue "business as usual", i.e., borrow medium- and long-term funds at fixed interest rates. To go beyond this amount would most likely put substantial stress on the fixed-rate markets for IBRD securities, resulting in "digestion" problems that will either raise the cost of borrowing sharply or partially undermine future borrowing efforts or both. Higher borrowing costs (e.g., 10-year borrowings at 17%-18%) are also likely to meet some resistance from the EDs, and in any case, we are reluctant to lock in such interest rates for a 5-10 year period.

6. If the Bank remains within what appears to be a prudent and feasible limit to fixed-rate borrowing in FY82 and yet defers entry into variable-rate funding, liquid assets at year end would be nearer to $8 billion than $10 billion. For reasons spelled out in the report of the Task Force of Liquidity Management, we do not believe that a reduction below the 40% formula level of liquidity is advisable in the present environment.

7. With respect to the amount of such borrowing, we believe that a range of up to $2 billion is appropriate. This is a generous estimate of what could actually be done during the remainder of FY82. A high ceiling is required, however, to give flexibility as to the timing and amount of such borrowings within markets and the fiscal year.

8. The specific choice of instruments would be left indeterminate in our presentation to the Board. Our preliminary judgment is that the most appropriate instrument for FY82 borrowings would be short-term discount notes, i.e., non-interest bearing notes of 30-365-day maturity issued at a discount from their face value corresponding to current interest rates, issued primarily in the US. The rationale for preferring short-term instruments rather than longer maturities at variable rates is that long maturity instruments are intermediated rather than primary sources of funds--and thus involve paying an intermediation fee to some form of financial institution. The short-term money markets, on the other hand, are the sources of funds for commercial banks and other intermediating institutions. Since the Bank's position in world capital markets gives it access to this type of funding, it makes sense to consider the short-term market first and use long maturity, floating-rate instruments when and if liquidity and other considerations outweigh the cost argument in favor of the money market.

Effects on Bank Finances

9. The potential effects of the proposed variable-rate (i.e., short-term) borrowing program for FY82 on the Bank's net income prospects will depend on (a) the degree to which short-term borrowings substitute for fixed-rate borrowings; and (b) interest rate movements. If the whole of the short-term borrowings are in addition to the planned FY82 borrowing program of $8.2 billion, effects on Bank net income may be expected to be small. Such borrowings would increase liquid holdings. Investment yields on these holdings are expected to be very close to, and vary proportionately to, the cost of the borrowings. It may even be possible to invest these funds at a modest profit.

10. Substitution of variable-rate borrowing for fixed-rate borrowing in FY82 will not change the asset side of the Bank's balance sheet, but will add to its interest sensitive liabilities. If short-term interest rates rise, the Bank's borrowing expenses will rise correspondingly. However, the return on liquid holdings should go up as well. 1/ The net impact would be for Bank income to increase to a lesser degree than would be the case with all fixed-rate borrowings in FY82. Similarly, if interest rates were to fall, the Bank's borrowing expenses would decline more rapidly than would be the case with fixed-rate borrowings, but Bank net income would not be improved, since a declining income from securities would more than offset the declining cost of borrowing. In either case, therefore, the Bank's income in FY82 is likely to be less affected by changes in short-term interest rates if a certain amount of short-term borrowing is undertaken in substitution for long-term borrowing.

1/ The impact of short-term interest rate movements on the return on liquid holdings will be greater if it is US dollar rates that rise, because US dollars are a high proportion of total liquid holdings. Also, to the extent the liquid asset portfolio contains instruments with maturities of over, say, six months, there would be capital losses to take into account.

11. This conclusion seems to be in conflict with the usual perception that borrowing short and lending long will leave any financial institution more exposed to interest rate risk. In the case of the Bank, the high level of interest-sensitive liquid holdings and the present lack of interest-sensitive liabilities complicate the analysis. There is also a further complication. While increases in short-term interest rates tend to help the Bank's income, increases in medium- and long-term rates reduce income because--under a fixed lending rate system--they affect the cost of debt more quickly than they affect income from loans. What this means is that an upward shift in interest rates for both short and long maturities helps the Bank's income in the near-term (the liquid asset effect) and hurts it in the medium-term (the lag effect on disbursements). The two effects are at least partially offsetting. Once the Bank adopts a more variable lending rate policy, the benefit it currently derives from the liquid asset effect will become less important and will gradually disappear as the Bank acquires variable-rate borrowings. In other words, the Bank will gradually find it advantageous to hold interest-sensitive liabilities in amounts roughly comparable to its holdings of cash and securities.

Board Presentation

12. In presenting this proposal to the Board, we expect to find many EDs worried about potential problems arising from "borrowing short and lending long". We believe that the most appropriate response is to point out that a decision to begin tapping new sources of funding is a matter of achieving a balance among various risks. The reason for undertaking variable-rate borrowing is to increase the margin of assurance that the Bank will have adequate access to funds even in difficult times such as the present. In the short run, interest rate exposure for the Bank is not changed very much because the amount of FY82 borrowing will be small relative to total debt outstanding. In any case, the shift to variable-rate borrowing will actually reduce the exposure of Bank net income to changes in short-term interest rates. The alternative to such borrowing may be creation of market "digestion" problems, high borrowing costs, and/or a reduction in liquid holdings. This last course of action itself carries substantial risks for the Bank in the present environment.

13. Medium- to long-term variable-rate borrowing should not raise any issues relating to liquidity policy. Short-term borrowings, however, could raise questions as to the amount of liquid holdings that the Bank should have. We propose not to raise these questions ourselves but to respond to EDs inquiries along the line set out in the report of the Task Force on Liquidity Management.

DB:DJW:ba

463

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Managing Committee

DATE: October 6, 1981

FROM: Moeen A. Qureshi MAQ

SUBJECT: Restructuring IBRD Finances: Recommended Actions

can we narrow more term? GS ITS?

Development Bank vs. Com'l Bank.

1

1. The attached Task Force reports consider three inter-related aspects of IBRD financial policies: (a) front-end fees; (b) variable loan charges; and (c) short-term or variable-rate borrowing. The reports examine a number of policy options and pose several questions on which guidance is sought. Since it is important to consider these reports--and our eventual proposals to the Board--as a single package, I would like to offer a brief comment on the common problem which all these reports address and then to summarize my own conclusions on what I think our policy response should be.

2. The essence of the problem facing the Bank is that the markets we have traditionally relied upon for our borrowings have been seriously eroded in recent years. Both nominal and--more recently--real interest rates have surged. Even more important, the volumes of fixed-rate funds available--both in terms of market size and willingness of authorities to grant access to markets--have not kept pace with the growth in the Bank's borrowing requirements. The short-run consequence has been to reduce our ability to keep down borrowing costs through avoidance of issues in high nominal cost currencies. This is important in terms of its impact on net income. The longer-run consequence has been to diminish the assurance we have that the Bank will be able to finance its current lending program and at the same time maintain satisfactory levels of cash and securities.

3. The most important objective, in my view, is to restore this lost flexibility, and to enlarge the Bank's room for maneuver in a financial sense. The key action to this end is a change in our lending rate policy. By establishing flexibility in loan pricing we can create the capacity to borrow prudently at short-term or at variable rates.

4. The report on Variable Loan Charges considers three ways in which our lending rate policy could be changed so as to achieve more flexibility in loan pricing. While I can appreciate the arguments for other options, my own recommendation is that we adopt a floating rate i.e., a rate established at a predetermined spread above the cost of Bank debt and adjusted every few months on all outstanding balances. This is the option which provides the greatest degree of funding flexibility and that, as I have said, is what I regard as the key objective.

5. The other arguments, both pro and con, seem to me to be less weighty. While a floating rate could diverge from current market conditions, the fact that loans are typically disbursed over several years should help persuade borrowers that the rate prevailing at the time of commitment is not all that

important. I don't think most borrowers trade-off Bank loans with other sorts of loans: they borrow all they can from both. Where this is perhaps less true--that is, the highly creditworthy countries--the risk of borrowers "graduating" themselves is a risk we can afford to run. AGREED!

6. Among the "sweeteners" suggested, I propose that the idea of variable maturities--within limits of up to, say, 25 years--be further explored. While predictable debt service payments to the IBRD are unlikely to be very important from the point of view of a borrowing country's overall balance of payments position, the Bank should nevertheless try to preserve what it can of its image as an especially attractive source of finance.

7. On the net income side, I see no alternative to a front-end fee of at least 1%. The attached table shows that a 1% fee, combined with a shift to a floating-rate system, would still result in a steady decline in net income over the next few years in our so-called "base case". In my judgment, the assumptions underlying this base case are conservative in the sense that they understate the income the Bank is likely to earn over the next few years. Nevertheless, I would be the first to admit that the net income could turn out to be as low--or lower--than is projected in the Base Case.

8. Therefore, I would recommend that we supplement the 1% front-end fee with other measures designed to ensure that income is adequate even if interest and exchange rate developments turn out to be less favorable than now seems probable. In particular, we should either:

(a) increase the commitment fee by 1/4% (to 1%); or AND?

(b) take a policy decision to seek a reduction in the real growth of administrative expenses in the next few years.

why not clearly do this!

Either of these steps should give us a high probability of achieving a net income of not less than $500 million in each of the next few years. I will be submitting a separate note on the specific steps which could be taken to implement a policy decision constraining the real growth of administrative expenses below currently planned levels.

Attachments
DJW:ba

Drafted and [illegible]

[illegible]

[illegible]

[illegible]

NET INCOME PROJECTIONS UNDER ALTERNATE POLICIES
($ millions)

	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90
"Base Case" Net Income (after grants)	541	406	355	323	347	491	712	901	1027
1% Service Fee	+38	+112	+134	+157	+182	+202	+220	+243	+266
Shift to Fixed-at-Disbursement System a/	-	-3	-17	-44	-120	-217	-344	-469	-544
Shift to Floating Rate System	-	-2	-13	-28	-83	-144	-215	-280	-347
"Post Policy Change" Net Income:									
With Fixed-at-Disbursement	579	515	472	436	409	476	588	675	749
With Floating Rate	579	516	476	452	446	549	717	864	946
Impact of Other Policy Options									
Additional 1/2% Service Charge	+19	+56	+67	+79	+91	+101	+110	+121	+133
1/2% Increase in 50 Basis-Point Spread ← 100 basis point?		+4	+12	+34	+68	+110	+158	+194	+258
1/4% Increase in Commitment Fee	+7	+28	+55	+82	+109	+134	+158	+182	+206
Reduced Administrative Expenses b/		+20	+42	+70	+80	+85	+90	+95	+100
Impact of Changed Assumptions									
More gradual decline in interest rates c/		+30	+17	-9	-71	-120	-171	-226	-285
US dollar weakens (strengthens) by 15% (SDR goes to $1.21 or to $1.07)		±65	±55	±65	±80	±110	±145	±185	±235
Spread on liquid assets decreases (increases) by 50 basis points beginning in FY84			±64	±73	±79	±86	±92	±99	±109
Memo Item:									
Net income corresponding to ICR of 1.10 (for "base case" interest on borrowings)	243	320	387	458	525	589	643	703	772

a/ Assumes lending rate set at 50 basis points above double-weighted average cost of borrowing.
b/ Illustrative reductions. P&B is currently examining alternative ways in which economies might be achieved.
c/ Instead of dropping 300 basis points over 6 years borrowing costs are assumed to decline by 150 basis points over 6 years:

	FY82	FY83	FY84	FY85	FY86	FY87
"Base Case" assumes following pattern:	11.50%	10.75%	10.25%	9.75%	9.25%	8.75%
More gradual decline would be:	11.5%	11.2%	10.9%	10.6%	10.3%	10.0%

F P A
10/6/81

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi

DATE: October 5, 1981

FROM: Task Force on Loan/Credit Terms

SUBJECT: Variable Loan Charges

1a

Summary of Issues for Management

1. The basic issue is the choice among alternative mechanisms for establishing a more variable lending rate. Three options are considered in the report. The first--fixing the rate at disbursement--does a good job of covering the interest rate risk the Bank now faces because of the lag between commitments and disbursements. It also gives borrowers a degree of certainty about the lending rate, since the rate is known before funds are drawn down (i.e., disbursed) and the rate remains fixed for the life of the loan. This system keeps the Bank's lending rate broadly in line with current market conditions, but may lead to operational problems if borrowers try to manage disbursement requests in order to take advantage of short-term variations in the lending rate.

(1) Fixed @ disbursement

2. The most important drawback of the fixed-at-disbursement option is that it would constrain the Bank's flexibility in altering the proportions of borrowings done at fixed and at variable interest rates. The maximum degree of funding flexibility is provided by the second option--a rate set at a fixed spread above the Bank's cost of borrowed funds and adjustable, say, every six months on all outstanding balances. This variable-rate option is attractive if one takes the view that equity among borrowing countries is best served by sharing costs not in relation to the interest rates prevailing when funds are drawn down but rather in relation to the volume of funds outstanding on loans irrespective of when they were disbursed. This "pooling" quality of the variable-rate option means that adjustment to interest rate change is spread across the entire spectrum of loan balances, so that the change in any given period is likely to be small. The disadvantage of this system is that the interest rate on new Bank loans could diverge rather substantially from current market conditions. Also, of course, borrowers could no longer look to the Bank as a source of fixed-rate financing.

(2) Variable

3. The third option--a rate that is fixed at commitment but adjustable at infrequent intervals--is something of a hybrid. Depending upon the frequency of adjustment it could closely approximate either the present system or the variable-rate system. An adjustable-rate option would thus permit the Bank to adapt its lending rate policy in light of what actually happens to its borrowing program over the next few years. This approach, while flexible, would be messy in the sense that it would defer decisions to a future date when they could be even more difficult to take and could entail increased controversy in the Board.

(3) Adjustable rate

4. Opinion in the Task Force was divided on what course to recommend. Those who see the principal problem as being one of assuring that the Bank has ample funding flexibility in the future favor the variable rate option. They

tend not to be impressed with the possible adverse impact of this system on the Bank's competitive position. For the Bank to give up its image as a fixed-rate lender is thought to be "saleable" in the current environment because of the probable decline in interest rates over the next few years. Moreover, the risk that the Bank's "cost base" could, over time, diverge substantially from current market conditions is felt to be tolerable because the Bank offers a product (i.e., finance + services) that is unique and thus not very price-elastic. N.B.?

5. The alternative view is that a fixed-at-disbursement system should give ample funding flexibility as long as the proportion to be borrowed at variable rates (or at short-term) is modest; say, less than a third of net borrowings in most years. If the proportion gets higher than this, then the fixed-at-disbursement system could be supplemented with loans made at a spread above the Bank's cost of variable rate (or short-term) borrowings (i.e., the so-called "B" loans). Proponents of this view give greater weight to the Bank's competitive position. They are more concerned that lending by the Bank at variable rates would tend to blur the distinction between the Bank and commercial lenders and thereby impair the Bank's leverage. They also take more seriously the risk that the Bank could have difficulties operating effectively in an environment where its "cost base" exceeds current market rates by a significant margin. Linking the lending rate to the current cost of funds to the Bank is also regarded as being more equitable than general pooling, even though it would produce more volatility in the lending rate.

6. Apart from this basic choice among lending rate mechanisms the report also identifies certain subsidiary issues on which guidance is sought. These are:

(a) whether it is tactically wise to raise the possibility of a variable commitment fee at this time.

(b) whether either of two "sweeteners" which are identified should be further developed and included in the package of proposals to be put to the Board.

Background

7. Two reasons are commonly given for why the Bank should now move to a lending rate system that is more variable. The first is that the Bank's exposure to interest rate risk--and hence to fluctuations in net income--is already excessive and should be moderated. The risk has grown in recent years because the Bank's undisbursed commitments have increased. Also, interest rates in most markets have become more volatile and the Bank's flexibility to pick and choose among these markets has diminished.

8. The second reason is that inflation has so battered the Bank's traditional sources of medium- and long-term fixed-rate borrowing that there is no longer adequate assurance that in the future the requisite volume of finance can be borrowed in these markets. The Bank must therefore put itself in a position to "go where the money is"; i.e., to borrow either short term or at variable rates. This means establishing a mechanism to deal with the interest rate risk inherent in such borrowing.

Options

9. The Task Force has considered three main options for coping with interest rate risk:

#1 Fixed rate set at time of disbursement. The lending rate payable on a loan would be a weighted average of the lending rates prevailing during the disbursement period. The weights would reflect the amounts disbursed at the different lending rates.

#2 Floating rate linked to cost of borrowing. Under this system, the lending rate on all outstanding balances would be adjusted, say, every six months to a predetermined spread over the Bank's average cost of all borrowings outstanding.

Could [illegible] concessional lending to IBRD?

#3 Rate fixed at commitment but subject to periodic adjustment. The lending rate would continue to be established at the time of commitment (as at present), but would be subject to adjustment at, say, two dates during the life of the loan.

Each of these options has advantages and drawbacks. The Task Force was divided in its views on what course to recommend. Some felt strongly that option #2 was to be preferred, whereas others felt option #1--either alone or in combination with option #2--was preferable.

Rate Fixed at Disbursement

10. Under this option, the lending rate could continue to be set as at present; that is, at a spread above the Bank's borrowing costs for a twelve-month period centered on the date of determination. But the rate would apply only to disbursements made in, say, the following three-month period. A new lending rate would then be set for each successive three-month period in the same way. The lending rate for any particular loan would be an average of the rates prevailing during the disbursement period. Once disbursements were completed, the average lending rate for the loan as a whole would be fully determined and would remain fixed for the life of the loan.

11. The appeal of this option is two-fold. First, it takes care of that part of the Bank's interest rate risk that is attributable to the lag between commitments and disbursements. When the Bank makes a loan commitment, it can only guess at the cost of the future borrowings that will be required to finance disbursements under the loan. Fixing the rate at the time of disbursement largely eliminates this guesswork. Secondly, it preserves at least a degree of certainty for the borrower. The lending rate is known before the funds are actually drawn down (i.e., disbursed) and it remains fixed for the life of the loan.

12. There are, however, several drawbacks. First, the lending rate may be highly volatile from quarter to quarter. Use of a twelve-month cost base rather than, say, a six-month base, helps some, but recent experience shows that quarter-to-quarter variation of over 100 basis points can occur even with a twelve-month base. This degree of volatility poses a risk that some borrowers could artificially accelerate (or delay) disbursement requests in order to capitalize on anticipated changes in the Bank's lending rate. It also raises an issue of equity among borrowers in that a borrower that happens to draw down funds just before the end of a quarter could end up paying a very different rate than a borrower that has a drawdown only a few days later.

13. Secondly, a rate set at the time of disbursement leaves the Bank exposed to interest rate risk that arises because the disbursements made in any particular period will be repaid at different times than the borrowings used to establish the lending rate. This risk is not very great at present, since the average interval between loan disbursement and repayment is approximately the same as the average life of new borrowings (both are about 8 years). But if the Bank were to begin to borrow a significant fraction of its resources either at variable rates or through short-term instruments, this risk could become significant. 1/

1/ It should be emphasized that the Bank's exposure to interest rate risk is not simply a function of how its loans compare with its debt. Liquid assets are also relevant. If the Bank were able to eliminate all interest rate risk on its lending activities, it would--given the current structure of borrowings--be exposed to changes in net income due to changes in short-term interest rates. This point is developed further in the report of the Task Force on Liquidity Management. The conclusion reached there is that, once a variable lending rate system is fully in place, short-term or variable rate borrowing up to a level approximately equal to the Bank's holdings of cash and securities will serve to diminish the Bank's overall exposure to interest rate risk.

14. The Task Force discussed two ways of handling this type of interest rate risk. One way would be to have the lending rate subject to a one-time adjustment after a given period of years (e.g., a period equal to the average life of the borrowings used to establish the lending rate). This would cover the risk effectively but could be rather complicated and would undermine one of the chief attractions of the fixed-at-disbursement option; namely, the fact that the borrower has certainty as to the lending rate once the funds are actually drawn. A second approach would be to offset short-term or variable-rate borrowing with loans that are priced at a spread above the cost of these particular funds. A small component of floating rate lending could be quite useful in connection with efforts to expand cofinancing. The report of the Task Force on Cofinancing suggests that "B" loans be made at "commercial" rates, which could mean at a spread above short-term borrowing costs.

15. The Task Force felt that a dual-rate system, while certainly feasible in a technical sense, would raise operational problems, if it meant that the highly variable (i.e., floating) loans were concentrated on better-off borrowers. Distinctions among borrowers already exist in the setting of loan maturities (based upon per capita income). But it was generally felt that the arbitrariness in our current practice should not be extended further by using these current categories as a basis for differentiating lending rates as well. Moreover, floating-rate lending could well prove to be less expensive in future years than fixed-rate lending. Hence a decision now to concentrate such lending on better-off borrowers could have the perverse effect --in a few years time--of making poorer borrowers pay more, on average, for Bank loans than richer borrowers. While explicable, such a situation could still be distinctly awkward.

16. There could also be practical problems in maintaining a correspondence between the volume of short-term or variable-rate borrowings and the volume of floating-rate lending. If for reasons connected with the state of financial markets, the Bank wished to increase short-term borrowing in a particular year, there would be no easy way of engineering a comparable increase in floating rate loans in the same period. In other words, a fixed-at-disbursement lending rate policy with a small component of floating rate loans could limit the Bank's flexibility to shift the mix of short- and long-term borrowings in response to changing conditions in the capital markets.

Floating Rate

17. A full floating-rate system would give the Bank maximum flexibility in the design of its borrowing program. Such a system might operate in a variety of ways. One of the simplest would be to have the lending rate change each six months, based upon a spread over the Bank's actual cost base at the beginning of the six-months period. If, for instance, the system

were to go into effect January 1, 1982, all borrowings completed after that date would be counted as part of the cost base as long as they remain outstanding. In the initial phase the cost base would thus be determined by current borrowings. However, as the system matures--with more and more new borrowings being added to the cost base--the average cost would become less sensitive to current borrowing costs (i.e., the rate on new borrowings) and more dependent on the costs incurred in past periods.

18. This smoothing effect is an advantage in that it would help avoid abrupt changes in the Bank's lending rate. Whereas under a fixed-at-disbursement system, the rate could change by 100 basis points or more within a quarter, a fully floating-rate based upon the Bank's cost of borrowed funds would be unlikely to change by more than 10 or 15 basis points a quarter once the system is fully established (i.e., after 6 years or so). This smoothing effect is, however, a mixed blessing in that it implies that the Bank's lending rate could diverge substantially from the rates prevailing on new Bank borrowings. If borrowing costs were to rise sharply, the lending rate called for under this system would be well below the then current Bank borrowing costs. While borrowers would hardly object, there could be an image problem in the financial markets. Conversely, if borrowing costs were to decline sharply, the Bank's lending rate would become very expensive in relation to prevailing rates in the capital markets. This problem does not arise as acutely for most other financial institutions because their cost base tends to be more dependent on short-term or variable-rate borrowings and hence more sensitive to current market conditions.

19. Another way of expressing these points is to say that a lending rate system based upon average costs (i.e., a rate related to the cost of the outstanding stock of debt) will give greater stability than a system based upon marginal costs (i.e., a rate related to current borrowing costs), but it will also mean that borrowers may at times find the "price" of new loans to be either unusually cheap or unusually expensive. 1/ Of course, a standard IBRD fixed-rate loan may also turn out to be either relatively cheap or relatively expensive, depending on what happens to interest rates after the loan is signed. But option #2 would be worse than this in the sense that a new borrower would know, even before the loan is contracted, what the Bank's cost base is. If that cost base is high compared to current rates the new borrower will know with certainty that his costs in borrowing from the Bank will be relatively high at least for a time.

1/ The floating-rate system works best in an environment where interest rates move cyclically. Under these conditions, volatility is minimized.

20. One way of coping with this particular difficulty would be to have the Bank's lending rate based on a cost index other than its own cost of outstanding debt. It is, in fact, common practice for commercial lenders to use an external index as a base for loan pricing. Were the Bank to follow this practice, it would face the special difficulty--not common to commercial lenders--that the currency mix of its borrowings (and hence of its loans) may vary considerably from time to time. Thus any external index with fixed weights for borrowings in various currencies could diverge in a major way from the Bank's actual costs. If, on the other hand, a variable weighting system were adopted, the index could be exceedingly complex.

21. While short-term or variable-rate borrowing causes problems in a fixed-at-disbursement system, it actually would make a floating-rate system more attractive, since it would keep the Bank's cost base more nearly in line with current market conditions. 1/

22. A floating-rate system would be regarded by most borrowers as diminishing the attractiveness of the Bank as a source of finance. The Task Force is well aware of the point that borrowers face uncertain costs even under the present system (because of exchange risks) and that floating rate loans could turn out to be cheaper if, as we ourselves forecast, interest rates come down over the next few years. Nevertheless, the fixity of the Bank's lending rate is perceived by borrowing countries as being important because it reduces the uncertainty of debt service payments.

23. Perhaps the best response to this concern is to note that the Bank must--over time--pass on its costs to the borrowing countries. The issue is not whether to pass on these costs, but how. In trying to maintain a fixed rate, the Bank is forced--when interest rates move in an unexpected way--to seek abrupt adjustments in the charges applied to new loans. Thus the certainty offered to borrowers on individual loans doesn't carry over to a country's whole borrowing relationship. If a country continues as a borrower, it will pay roughly the same average cost over time irrespective of the lending rate system. The only difference will be that under a fixed-rate system the average will be made up of many fixed-rate loans carrying rates that may span a wide range, while under a floating-rate system the average will apply to each loan. From the country's point of view, the uncertainty is the same.

24. Some members of the Task Force felt that equity among members would be best served by a floating-rate system. Just as the exchange risk is now pooled, the interest rate risk could be pooled as well. A borrower's share of total interest payments would then match its share of outstanding loans,

---

1/ Annex 1 shows the implicit weights given to past borrowing costs in determining both the average cost of debt and the average lending rate under various systems. If 20% of each year's borrowing were to be undertaken at variable rates (or short maturities), the weight given to the current year's borrowing costs would increase from less than 10% to almost 30%.

irrespective of when the loan was signed or when it was drawn down. With such a "cooperative" approach, countries that have ceased to borrow--because of graduation, for example--would not be spared participation in needed adjustments. Other members of the Task Force felt that equity requires a clear link between the lending rate charged on any given loan and the cost of the funds used to finance that loan. A fixed-at-disbursement system would achieve this objective.

Rate Fixed But Adjusted

25. The third option is a system in which the lending rate continues, as at present to be set at commitment on the basis of, say, a twelve-month average borrowing cost. The rate would be adjustable at specified dates in the future. One variant of this option would give the Bank discretion in the frequency of reviews (subject, perhaps, to a minimum interval of six months) but to fix the spread at the time of commitment as well as the method of calculating the cost base. This approach would have several advantages. First of all, it would give the Bank the ability to manage its loan income according to the type of funding that it can achieve. The Bank could seek the best pattern of funding and adapt its asset pricing to the type of finance available.

26. The "formula approaches" of a rate set at disbursement and a full floating rate are less flexible. The rate set at disbursement will work well as long as the pattern of borrowings is reasonably close to what it has been in the past. But it does not eliminate interest rate risk if the Bank has a large volume of flexible-rate debt, fluctuating proportions of flexible and fixed-rate funds, or substantial year-to-year variations in the maturity of fixed-rate borrowings--all eventualities that the Bank may face to an increasing degree in the future. The floating-rate scheme, on the other hand, may at this time go too far and make loan income more variable than is necessary.

27. Given our current pattern of borrowing, a five-year interval would give the Bank about the same degree of responsiveness (or variability) in loan income that a fixed-at-disbursement system would. (See Annex 1) It would thus be possible to initiate the system in such a way that borrowers would be guaranteed no adjustment for the first five years. Were this done, the system could readily be presented as a rather modest adaptation of the present sytem. The contrast between commercial lenders who change their rate every three months and the Bank would be evident and would re-inforce the image of the Bank as a source of (relatively) fixed-rate finance.

28. The drawback, of course, is that the periodic adjustments could be very large--much larger than in the fixed-at-disbursement system. There would in addition be a chance element in such infrequent adjustments: if a loan's anniversary dates happen to fall during periods of unusually high (or low) borrowing costs, rather obvious inequities could result.

29. Borrowers could be expected to resist giving the Bank such wide discretion in rate setting. The risk of arbitrariness on the part of the Bank could be reduced by fixing the spread and the rules for calculating the cost base at the time of commitment. The only discretionary variable would then be the frequency of changes. It would be understood that the frequency of reviews would be driven by the nature of the Bank's liabilities: a high proportion of fixed-rate funding would mean long intervals between lending rate adjustments (or no adjustments at all); at the other extreme, complete financing at variable rates would result in changes in the lending rate every six months.

30. This system could also be varied to pass on more (or less) interest rate risk, as circumstances dictate. Were the interval longer--involving, say, only one adjustment during the life of a loan--the system would reduce but not eliminate the interest rate risk currently carried by the Bank. It is difficult, however, to justify any particular intermediate position, and most Task Force members saw little appeal in such a partial solution.

Consequences for Net Income

31. All of the options for more variable lending rates would improve the Bank's income prospects in an environment of secularly rising borrowing costs. Equally, all of them worsen those prospects in an environment of falling costs. Since our current projections envisage just such a decline beginning next year, the impact of adopting a variable-rate system will be to lower the net income projected, although the third option's effects will not begin to show until the years after FY86. The following table shows the approximate impact.

Alternative Net Income Projections a/
($m)

	FY84	FY85	FY86	FY87	FY88	FY89	FY90
Current Lend. Rate Policy	489	480	529	693	932	1144	1293
With: Fixed-at-Disbursement b/	472	436	409	476	588	675	749
Variable Rate b/	476	452	446	549	717	864	946
Adjustable in 5th Yr. b/	489	480	529	[600]	[800]	[850]	[900]

a/ Figures shown after grants for external research. A front-end fee of 1% is assumed.
b/ A "spread" of 50 basis points is assumed.

explain difference!

32. The impact of changing to a variable lending rate policy is most pronounced for the fixed-at-disbursement system. Allowing for both direct and indirect effects, the change to this system would penalize net income (as compared to current projections) by over $500 million in FY90. The reason the decline is more pronounced in this option than in the variable-rate option is that the "spread" actually achieved in FY90 is much less than 50 basis points. 1/ The significance of the shift to a more variable lending rate system may be somewhat overstated in these figures, since it would be reasonable to expect some pre-payment of fixed-rate loans in the latter part of the 1980s if interest rates decline in the manner assumed in these projections.

33. Because all variable lending rate systems would diminish the "cushion" the Bank can now count on during periods of declining interest rates, more attention would need to be paid under these systems to another income risk: namely, the risk of a sharp drop in short-term rates leading to an increased cost of carrying liquidity. Just as the Bank has benefitted from an inverted yield curve during periods of generally rising interest rates, it should be prepared for a normal yield curve to be re-established in periods of declining rates.

34. One way of dealing with this risk would be through a variable commitment fee.2/ Such a fee might remain at 0.75% as long as the return on liquid assets remains within some predetermined margin of the average cost of new borrowing. While attractive in concept, this proposal could be expected to encounter opposition from borrowers on the grounds that the Bank's commitment fee is already high by commercial standards and has in the past substantially exceeded the Bank's actual costs of carrying liquidity. There is therefore a tactical question as to whether the added risk protection is worth seeking at this time, in view of the controversy that could be generated by the proposal.

"Sweeteners"

35. As was the case with front-end fees, suggestions were put foward for making the change to variable loan charges more palatable to borrowers. Once again, the issue for management is whether either of the following suggestions ought to be pursued:

1/ The average yield on loans under the fixed-at-disbursement system is a weighted average in which the weights are the amounts disbursed in each year. Since disbursements under new loans are quite low in the early years of the decade--when the lending rate is relatively high--the average yield on loans is only 9.4% in FY90, whereas the cost of outstanding debt is 9.35% in the same year.

2/ The potential advantage of such a fee as an income generating device over the next few years is noted in the report on Front-End Fees. (In fact, when the secular increase in interest rates is taken into account, the Bank has gained from its liquid asset holdings over the past few years.)

-- variation in the maturity of loans. The idea--which is common in mortgage lending--is to give borrowers the certainty of a fixed debt service payment by allowing the maturity of the loan to vary. If the lending rate goes up, a higher part of the debt service payment is counted as interest and the amortization schedule is automatically adjusted. Similarly, if the lending rate falls, the loan is repaid more quickly.

-- allowing borrowers a choice during the transition period. Borrowers might be given the option to have the lending rate remain fixed through, say, FY86. This would be presented as a way of giving borrowers ample time to adjust to the new system.

36. If the Bank were to permit loan maturities to vary, it would be able to offer borrowers a predictable annual payment while at the same time protecting its net income against interest rate risk. There is a cost, of course, and it would take the form of uncertainty with respect to the Bank's cash flow and capital requirements. The cash flow uncertainty could be dealt with through a rather minor adjustment in our present liquidity policy, but the uncertainty regarding capital needs could be more troublesome. The Bank would presumably have to "manage" its outstanding loans in such a way as to maintain a safety margin between that total and the level of capital and reserves. These effects could be reduced if variable maturity loans were confined to lower-income borrowers (on the grounds that these are the countries that most need protection against debt service volatility). The chief risk under this variant is that interest rate changes could trigger an unintended and undesired shift in the composition of the loan portfolio toward riskier borrowers.

37. Annex 2 shows how changes in the lending rate could affect the maturity of a Bank loan. Starting with a 12% lending rate and a 15-year term, an increase in the lending rate of 1% adds 2.7 years to the life of the loan, while an increase of 2% adds 8.45 years.

38. The idea of giving borrowers a choice during a transition period is that it would help demonstrate that the change in system is not necessarily harmful to borrowers. Indeed, the expectation is that many if not most borrowers would choose the variable rate option because they expect interest rates to decline over the next few years. To the extent borrowers opt for fixity of rate, the Bank's "best estimate" of net income for the years through FY86 would be higher (cf. para. 31 above).

Attachments
DJW:ba

Average Loan Yield and Average Cost of Funded Debt in FY95 as Weighted Averages of Previous Interest Rates

(All figures are percentages. Columns may not sum to 100% because of rounding)

	Lending Rate Policy 1/			Debt	
	Present	A	C5	Present	20% Float
FY82	2.5	-	-	0.5	0.5
83	3.6	0.3	-	1.2	1.0
84	4.9	1.0	-	1.5	1.2
85	6.5	1.8	-	2.7	2.1
86	8.4	2.9	-	3.9	3.1
87	9.4	4.0	-	4.5	3.6
88	10.3	5.3	-	5.1	4.1
89	11.5	6.8	-	6.2	5.0
90	12.2	8.8	-	9.5	7.6
91	11.9	10.8	20.3	12.1	9.7
92	10.5	13.1	22.4	12.8	10.2
93	6.1	15.9	20.0	15.2	12.2
94	2.0	18.8	18.4	16.2	12.9
95	0.2	10.7	18.9	8.6	26.9

Lending Rate Policy 1/

Present = Lending rate fixed at time of commitment.
A = Lending rate fixed at time of disbursement.
C5 = Lending rate fixed at time of commitment but adjusted every five years.

Debt

Present = Maturity pattern in FY82 borrowing program.
20% Float = 20% of each year's borrowings are at floating rates.

1/ The loan yield under a fully floating rate system would depend upon how the cost base is defined. If it is defined as being equal to the Bank's average cost of debt, then the implicit weights would be identical to those shown under Debt.

Annex 2

Experiments with Variable Maturity Loans

Base Case: 15-year loan for $100m at 12%

Adjusted Interest Rate	Constant Payments Adjusted Maturity
11.00	13.26
11.50	14.05
12.00	15.00
12.50	16.19
13.00	17.74
13.50	19.91
14.00	23.45
14.50	32.50
14.68	negative amortization

Annex 3

Terms of Lending Task Force Members

Messrs. Ardalan
Heininger
Jaycox
Karaosmanoglu
Mistry
Pfefferman
Shakov
Wood

– Chairman

Item a

3a

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

CONFIDENTIAL

September 16, 1981

Members of the Managing Committee

Re: Future IBRD Lending Program

I am circulating a report of the Task Force on Future IBRD Lending Levels to members of the Managing Committee. Mr. Wood was the coordinator of this Task Force.

Moeen A. Qureshi

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DECLASSIFIED
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TO: Managing Committee (Through Mr. Moeen A. Qureshi)

DATE: September 16, 1981

FROM: Task Force on IBRD Lending Levels

SUBJECT: Future IBRD Lending Levels: Issues and Options

why is this paper so concerned with the Board?

Background

1. At last year's Annual Meeting and again--in more detail--in the following months a case was made for a substantial upward revision in the levels of lending planned for the IBRD. The reasons given are well known: higher-than-expected inflation; the desirability of making structural adjustment lending additional; the need for expanded energy lending; the change in representation of China; and some substitution of IBRD lending for IDA lending during the IDA7 period.

2. Prior to the meeting of the Development Committee in Gabon in May this year it became clear that the major industrial countries were not prepared to approve an early increase in IBRD lending above current plans. Accordingly, the budget document proposed a lending program which--for the years FY82 and FY83--included initial lending to China and a part of the expanded program for energy within the previously planned totals. In other words, the expansion pressures were accommodated by changes in the composition of planned lending rather than through an increase in the total.

3. The Board was told that the proposed future lending levels were tentative, and that they would be reviewed once the then prevailing "uncertainties" about the means of financing future IBRD/IDA lending were resolved. Mr. McNamara indicated that such a review could take place as early as mid-FY82 and might include proposals for a modest increase in the FY82 program as well as increases for subsequent years. Assuming full subscription to the General Capital Increase (GCI), the Bank would have the (legal) lending capacity to sustain indefinitely a level of lending of upwards of $13 billion without requiring any further infusions of capital. This means that the current plans for FY82 ($9.6 billion), FY83 ($10.7 billion) and FY84 ($11.9 billion) could be increased if subsequent Bank lending were held to a level of between $13 and $14 billion. This possibility has been referred to as "drawing forward" of future lending.

4. The issue for Management is how to respond now that the uncertainties about the GCI appear to have been resolved. The issue might be addressed in several ways:

(a) through a mid-year review of the FY82 program which would consider the possibility of an increase in the $9.6 billion currently planned;

(b) through a revision of the FY83 and FY84 program in the context of preparing a budget to be submitted to the Board next May; — By all means!

(c) through a review of the FY82-86 program which could be presented to the Board as a separate issue for consideration sometime early next year. — yes, here, too!

The first approach is almost certainly undesirable. Any proposal for change in the FY82 program would encounter adamant opposition from the major shareholders. They are looking for a period of consolidation. The worsened prospects for IBRD borrowings and net income will exacerbate this feeling in the near term, until corrective measures are devised and put in place. The second approach is more promising and can in fact be considered as part of a review of the FY82-86 program. Accordingly, the options explored in this report correspond to various postures which the Management might take on the revision of the IBRD lending levels currently proposed for FY82-86.

Options

5. The Task Force has considered three options:

> #1 No Change in Current Plans. This option would require adjustments in the composition of the FY82-86 program,1/ but would leave unchanged the annual lending figures.
>
> #2 Upward Revision. This option would provide for a modest increase (say $3 billion) in the $60 billion planned for FY82-86, with most of the increase coming in FY84-86. The rationale for the increase would emphasize lending to China. More rapid hardening of blends and the displacement effects of expanded energy lending would also be cited.
>
> #3 More Flexible Implementation of Current Plan. Under this option the aggregate IBRD lending figures for future years would not be changed, but they would carry a different meaning. They would be interpreted as central points in a range of possible outcomes. Lending to individual countries would be more aggresively adjusted - either up or down - depending upon the countries' responsiveness in policy matters. The upward margin of flexibility in overall IBRD lending - say $1.0 to $1.5 billion in FY83 - would be justified financially as an application of the additional lending capacity created by the GCI.

yes!

The comments that follow are intended to indicate the main advantages and drawbacks of these options. The Task Force is aware that more work needs to be done to translate these options (especially option #3) into specific proposals that could be put to the Board. The purpose here is to elicit guidance on which of the options--or variants thereof--should be pursued further.

1/ A Bank-wide review of country lending programs for the FY82-86 period is currently underway. As one step in that process P&B and DPS have reviewed Regional proposals and recommended a pattern of allocation by country that would absorb IBRD lending for China in the FY82-86 period within the $60 billion total currently planned.

<u>No Change</u> (Option #1)

6. This option is straightforward. Its main advantage is that it would go down well with our major shareholders--especially the United States--and would signal a change from past practice. It could be readily defended as a cautious response to the more difficult financial environment in which the Bank now finds itself. The main disadvantage is that it would be seen by Part II countries and some of the smaller Part I countries as something of a retreat from the Management's past position. Why, it will be asked, if the Bank can "afford" to increase its lending program at no incremental cost to shareholders, does Management not propose to do so?

7. The detailed implications of this option for the allocation of future IBRD lending will become clear in the context of the allocation exercise which is currently underway within the Bank. It now seems likely that it would entail increased lending to low income countries (especially China and India) and decreased lending to higher-income and oil-exporting countries. The implications of this shift for the overall quality of the Bank's loan portfolio and for its reserve position are being considered by a separate Task Force.

<u>Upward Revision</u> (Option #2)

8. The pros and cons of this option are of course just the opposite. But there would be the difference that a lot of attention would be focussed on the reasons given for a recommended increase. Probably the most compelling argument is China (though there are doubts, especially in Europe, about whether China is using its substantial commercial borrowing capacity to an adequate extent). P&B and DPS have recommended an IBRD program of $2.9 billion for China over the FY82-86 period, which is in line with the Region's current proposals. The desirability of lending to China on roughly this scale is unlikely to be seriously challenged in the Board. The debate is more likely to concentrate on whether or not to compensate for this increase through offsetting reductions elsewhere. That it is feasible to compensate in this way is clear enough from the internal allocation exercise already mentioned. From the point of view of the Board however, the discussion would be likely to focus on more general issues, such as whether potential "savings" through a faster pace of graduation and/or intensified cofinancing efforts can reasonably offset IBRD lending to China and expanded energy lending.

9. The graduation issue is the subject of a separate Task Force report. That report shows that unless the benchmark for graduation from IBRD were tightened radically (to below 25% of per capita GNP in the industrial countries), the "savings" during the FY82-86 period would not exceed $650 to $950 million. On the other hand hardening of blends could well add much more than this to the total of IBRD lending during the same period. Thus, the net effect of IBRD and IDA graduation (with the latter understood to embrace hardening of blends) is to compound the problem of accommodating IBRD lending to China and for energy.

10. The prospects for generating "savings" through intensified cofinancing efforts are difficult to quantify. Lending to many of the Bank's more creditworthy customers, including the oil-exporting countries, is already programmed for a rate of decline that itself assumes very substantial cofinancing.

Whether it would be feasible in the next few years to go still further--either in these countries or in others--is a subject on which opinions differ sharply. Particular proposals for expanded cofinancing are currently under review.

11. A further point of debate in the Board would be the displacement effect of expanded energy lending. There is no doubt that expanded energy lending is already displacing project lending in many oil-importing countries. But this displacement effect does not show up clearly in the aggregate figures because of the lending pattern in a few countries where structural adjustment loans are not going ahead. The very complexity of this displacement process will make it harder to mount a really convincing case that energy lending is forcing us to defer or drop high-priority projects in other sectors.

12. The financial implications of a $3 billion increase in the IBRD program over the next few years are relatively inconsequential as far as IBRD capital is concerned. More serious are the implications for IBRD borrowings. While the incremental amounts are small, the current state of bond markets and the less favorable outlook for IBRD income will make some governments (notably Germany and Japan) very reluctant to add anything to currently projected borrowing requirements.

More Flexible Implementation (Option #3)

13. This option would respond to the increased lending capacity created by the GCI in a non-traditional way: we would say to the Board that we intend to follow an approach that will result in greater year-to-year variation in the amounts lent to individual countries. This would be true both on the up-side and on the down-side. There would be less of a presumption in the future than in the past that increases (or decreases) in the amounts lent to one country would be offset by bringing forward (or deferring) lending to another country. The Bank already has the flexibility to respond in a downward direction when a borrower is unresponsive, but the use of this flexibility in practice has been rather limited. On the other hand, upward flexibility has been constrained by the way the system has worked. Approved Regional lending programs cover (with a margin for slippage) the full amount of lending that has been authorized by the Board. Whereas we have been able on occasion to exceed the approved annual lending figure by a modest amount (2.7% in FY79 and 2.4% in FY81) without creating much of a stir, the Regions have tended to treat the approved lending figure as an overall ceiling. This has meant that increases in the lending program for a particular country have been perceived as being at the expense of lending previously planned for others. While some reshuffling can be, and has been, accommodated within the existing system, this option would add flexibility by expanding the margin within which increased lending to one country would not be at the expense, even temporarily, of lending to another.

14. The Board could be asked to approve a margin of, say, $1 billion or $1.5 billion above the $10.7 billion currently planned for FY83. This would be well within the lending capacity created by the GCI. As noted above, the Board has already been told that a lending level of over $13 billion could be sustained indefinitely.

15. The important difference from the options #1 and #2 is how the use of the IBRD's increased lending capacity would be justified to shareholders. Emphasis would be put on flexibility and policy linkage rather than on the composition of the future lending program by country (e.g. China) or sector (e.g., energy). We would say to the major shareholders that lending would be greater than current plans only to the extent that this was associated with improved policies. While this posture would doubtless be regarded with a good deal of scepticism by some--as a cover behind which we could continue business as usual at a higher level of lending--it would be difficult to argue against, particularly if some specific instances of both upward and downward flexibility could be adduced. Moreover, if the major shareholders could be convinced that the Bank was going to operate more flexibly--in both an upward and a downward direction--their fundamental concerns (i.e., perceived "stretching" to reach lending targets; weakended conditionality) would well be eased.

16. On the other hand, we could say to the Part II countries that the increased lending capacity created by the GCI would be used at a more rapid rate than previously planned if individual countries were prepared to take action on critical policy matters. This would be especially so at the individual country level. Whether Bank-wide lending would increase or not would depend upon whether the bulk of countries--other than those constrained by creditworthiness--were willing to react positively.

17. The operational implications of this option are potentially far-reaching. One implication would be that country programming would need to provide for a range of outcomes. The present system which links manpower and budgetary resources to the approved lending program would have to be adapted to provide greater flexibility. The linkages between manpower input and lending are most direct in those sectors where our lending is based on self-contained investment projects. In these cases, because of the lead times involved in project preparation and appraisal, it is difficult to see how upward flexibility could be implemented except by working on a significantly larger margin of over-programming than is now customary. In other sectors where our lending is based upon a slice of a sectoral investment program, there would be a somewhat greater degree of flexibility, particularly if the Bank were willing to vary the percentage of costs it would finance.

18. Apart from the implications for programming, budgetting and staffing there would also be an impact on the relations between management and Board. If flexibility were given to vary country lending programs by significant amounts in response to policy improvements, the Board would no doubt expect some accounting of how that flexibility is used and this could lead to more discussion of country programs in the Board.

19. The Task Force recognizes that this option is only attractive if a change toward more flexible country programming is thought to be desirable in its own right.

IBRD Lending Program - FY78-81
($ million)

	FY78	FY79	FY80	FY81
Budget Memo	6100	6800	7600	8600
Actual	6098	6989	7644	8809
$ Difference (million)	2	189	44	209
% Difference	0.0	+2.8	+0.6	+2.4

Region	FY81 Program (as of 6/30/80)		FY81 Program (Actual)		Variation				
					Projects Added		Projects Deleted		Dollar Amounts
	No. of Proj.	Amount ($m)	No. of Proj.	Amount ($m)	No.	% of Program as of 6/30/80	No.	% of Program as of 6/30/80	Actual/6/30/80 Plan (Percentage)
Eastern Africa									
Botswana	1	15.0	1	17.0					113
Burundi	2	22.7	4	56.0					247
Ethiopia	2	72.0	2	75.0					104
Kenya	3	190.0	3	133.0					70
Lesotho	1	10.0	1	10.0					100
Madagascar	3	35.5	4	45.3					128
Malawi	3	65.0	4	120.0					185
Mauritius	2	30.0	2	30.0					100
Rwanda	3	40.5	2	22.5					56
Somalia	3	39.0	1	10.2					26
Sudan	3	80.0	3	73.0					91
Swaziland	-	-	1	10.0					-
Tanzania	5	102.8	4	92.8					90
Uganda	3	87.0	2	17.0					20
Zaire	3	37.2	2	29.3					79
Zambia	4	89.5	2	26.0					29
Zimbabwe	1	50.0	2	107.0					214
Total	42	966.2	40	874.1	9	21.4	11	26.2	90
Western Africa									
Benin	2	25.0	4	43.3					173
Cameroon	3	68.0	3	62.5					92
C.A.R.	-	-	1	9.4					-
Gambia	-	1.0	-	-					0
Ghana	1	30.0	1	29.0					97
Guinea	2	42.2	2	46.0					109
Guinea-Bissau	1	5.0	1	6.8					136
Ivory Coast	4	215.0	2	133.0					62
Liberia	-	-	2	9.0					-
Mali	2	17.0	2	20.7					122
Mauritania	4	24.3	1	15.0					62
Niger	1	18.0	1	21.5					119
Nigeria	4	430.0	3	321.0					75
Senegal	4	79.1	5	102.9					130
Sierra Leone	2	22.0	3	30.5					139
Togo	1	12.0	2	25.7					214
Upper Volta	3	90.0	2	62.0					69
Total	34	1078.6	35	938.3	13	38.2	12	35.3	87

Region	FY81 Program (as of 6/30/80) No. of Proj.	FY81 Program (as of 6/30/80) Amount ($m)	FY81 Program (Actual) No. of Proj.	FY81 Program (Actual) Amount ($m)	Variation: Projects Added No.	Projects Added % of Program as of 6/30/80	Projects Deleted No.	Projects Deleted % of Program as of 6/30/80	Dollar Amounts Actual/6/30/80 Plan (Percentage)
EMENA									
Algeria	4	280.0	1	110.0					39
Cyprus	1	8.0	1	14.0					175
Egypt	8	364.0	7	286.6					79
Jordan	2	36.0	2	46.0					128
Morocco	4	197.5	3	223.0					113
Oman	1	20.0	-	-					0
Portugal	3	142.0	2	120.0					85
Romania	4	325.0	4	360.0					111
Syria	2	23.4	1	15.6					67
Tunisia	5	101.0	6	152.6					151
Turkey	6	555.0	8	722.0					130
Yemen AR	4	44.0	3	41.0					93
Yeman, PDR	2	20.0	3	24.0					120
Yugoslavia	4	310.0	4	321.0					104
Total	50	2425.9	45	2435.8	10	20.0	15	30.0	100
LAC									
Argentina	4	341.0	2	68.0					20
Bahamas	1	7.0	1	7.0					100
Barbados	2	18.0	1	6.0					33
Bolivia	2	95.0	-	-					0
Brazil	8	695.0	8	844.0					121
Chile	2	78.0	2	78.0					100
Colombia	8	333.0	5	550.0					165
Costa Rica	1	25.0	2	29.0					116
Dominican Republic	1	25.0	1	24.0					96
Ecuador	1	15.0	1	20.0					133
Guyana	2	20.0	3	31.5					158
Haiti	2	17.0	3	21.2					125
Honduras	1	28.0	1	28.0					100
Jamaica	1	5.0	2	44.5					890
Mexico	7	1087.0	7	1081.0					99
Nicaragua	1	5.0	3	38.7					774
Panama	2	25.0	3	45.5					182
Paraguay	4	70.0	3	58.8					84
Peru	3	120.0	4	148.0					123
Uruguay	1	30.0	1	30.0					100
Total	54	3039.0	53	3153.2	16	29.6	17	31.5	104

Region	FY81 Program (as of 6/30/80) No. of Proj.	FY81 Program (as of 6/30/80) Amount ($m)	FY81 Program (Actual) No. of Proj.	FY81 Program (Actual) Amount ($m)	Variation: Projects Added No.	Projects Added % of Program as of 6/30/80	Projects Deleted No.	Projects Deleted % of Program as of 6/30/80	Dollar Amounts Actual/6/30/80 Plan (Percentage)
East Asia & Pacific									
China	-	-	1	200.0					-
Fiji	1	15.5	1	18.0					116
Indonesia	8	740.0	7	673.0					91
Korea	5	495.0	5	390.0					79
Laos	1	15.0	-	-					0
Malaysia	4	145.0	5	182.0					126
Papua New Guinea	2	27.0	2	33.0					122
Philippines	5	468.0	5	533.0					114
Solomon Islands	2	3.5	1	1.5					43
Thailand	8	455.0	7	325.9					72
Western Samoa	-	-	1	2.0					-
Total	36	2363.5	35	2358.4	7	19.4	8	22.2	100
South Asia									
Bangladesh	8	320.0	8	334.0					104
Burma	3	90.0	2	55.0					61
India	13	1840.0	13	1711.0					93
Nepal	5	60.2	5	62.2					103
Pakistan	6	160.0	6	202.0					126
Sri Lanka	3	140.0	4	167.0					119
Total	38	2610.2	38	2531.2	10	26.3	10	26.3	97
BANK TOTAL	254	12483.4	246	12291.0	65	25.6	73	28.7	98

FORM NO. 75
(9-78)

THE WORLD BANK

ROUTING SLIP	DATE: Oct. 5, 1981

3b

NAME	ROOM NO.
Messrs. Clausen	E-1227
Stern	E-1227
Golsong	N-735
Chenery	I8-100
Thahane	A-1219
Benjenk	E-823
Paijmans	A-1236
cc: Mr. Wood ?	D-1326

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

who is on that force?

REMARKS:

Please find attached the report of the Task Force on IBRD Capital. This Task Force was coordinated by Mr. Wood.

I suggest that this report be put on the agenda for an upcoming Managing Committee meeting.

FROM:	ROOM NO.:	EXTENSION:
Moeen A. Qureshi	E-1241	73665/6

OFFICE MEMORANDUM

TO: The Managing Committee
DATE: Sept. 23, 1981

FROM: Mr. Moeen A. Qureshi
Task Force on IBRD Capital

SUBJECT: Options Beyond the General Capital Increase (GCI)

1. Past discussions of IBRD capital increases beyond the GCI have focussed primarily on two options:

#1 Change in the statutory limit (or "gearing ratio")

and

#2 Another general capital increase with no paid-in

The arguments for and against these options are familiar, and need not be repeated at length here. Both have the decided attraction that they can be implemented at no real budgetary cost to members, but they have the corresponding disadvantage that they do nothing to improve the Bank's income and reserve prospects.

2. While the current statutory limit seems - and is - very conservative, the problem has always been how to change it without alarming bondholders and damaging the Bank's position in the markets. That problem is exacerbated at the moment by the doubts that exist among investors concerning the attitude of the current U.S. administration toward the Bank.

3. The option of an all callable increase has traditionally been opposed by the German government, but this opposition seems to have softened considerably in recent months. The chief financial drawback of the option - that it leaves income and reserves unimproved - can be offset through actions to increase loan charges and/or to stop transfers to IDA after the current replenishment period. The main political obstacle - the likely opposition of the United States - is much more difficult to get around, and could well be a decisive barrier unless there is some improvement in the political climate.

4. The Task Force also considered two other options:

#3 Another general increase with say, 5% paid-in

and

#4 Large-scale selective capital increases

The idea of another general increase with a lesser amount paid-in would only be realistic if there were some improvement in the political climate and some easing of the current budgetary strains. But, if these improvements were to occur, an increase with say 5% paid-in could turn out to be not much more difficult to sell than an all callable increase.

5. Most of the Task Force's attention, however, has been concentrated on the option of enlarging the Bank's capital base through large scale selective capital increases.

6. A number of countries have already indicated an interest in selective increases. Saudi Arabia, for example, clearly wishes to play a major role in the Bank in coming years. It has already received a major quota adjustment in the Fund and is in the process of making a strategic decision regarding the additional subscription it should seek in the Bank. Among the other OPEC countries, Kuwait and UAE have formally applied for selective increases in recognition of their changed economic standing and also their support to the Bank Group. Japan too is keenly interested in an increase in its shareholding in the Bank and will probably try for an adjustment in the Fund as well during the next quota review. Several other countries, including Germany, France and the Scandinavian countries, were identified as potentially eligible for selective increases when we last reviewed shareholdings in the Bank and considered what increases might be justified on the basis of a comparison with "calculated" quotas in the Fund.1/

7. While it is difficult to specify at this stage the additional subscriptions that these countries might actually take up, it is possible to visualize under certain criteria subscriptions of 100,000 additional shares or more. Assuming a price per share of $120,635, this amounts to additional capital of over $12 billion. Since selective increases must, on equity grounds, have the same paid-in component as the average for all existing shares (roughly, 8.75%) about $1 billion in paid-in capital could be generated, with the prospect of about $600-700 million in usable funds becoming available on the basis of past patterns of releases by members.

8. U.S. reluctance to make more capital (either paid-in or callable) available beyond the GCI might not be a barrier to this option. Congressional action is not required before the U.S. Governor may vote on a selective increase which does not include the U.S. Despite this advantage, a large selective capital increase implemented without any other parallel action would create three kinds of problems: a) loss of the U.S. "veto", b) departure from parallelism with the IMF, and c) other problems of relations among members.

9. First, a selective capital increase of 100,000 shares would reduce U.S. voting power to about 18%. At present 80% of the Bank's

1/ Quota increases in the Fund are the end result of a negotiating process that takes into account sets of quota calculations prepared by Fund staff from recent economic data, using various formulas constructed for this purpose. The results of several of these formulae are combined to determine a "calculated" quota for each member. The staff also prepares tables indicating the divergence between calculated quotas and the actual quotas that resulted from preious increases.

voting power is required to amend the Articles or change the number of Board seats. The U.S. presently has over 20% of the vote, and can thus single-handedly block these kinds of changes. It seems important to the U.S. to maintain this so-called "veto."

10. One way to handle this potential problem would be to seek U.S. agreement to a voting share lower than 20% by undertaking to change the qualified majority from 80% to 85%, as was done in the IMF. This might be taken up with the amendment of the statutory lending limit, for example. There are indications that such a change may be acceptable to the U.S.

11. A second way to handle this problem would be to ask the U.S. to exercise preemptive rights to maintain its share of subscribed capital and hence its voting power. The U.S. would find it very awkward - though by no means impossible - to argue that members willing to provide additional cost-free resources to the Bank should not be permitted to do so simply because the U.S. was unwilling to subscribe to shares available to it. However, the Task Force recognizes that the U.S. has ample means at its disposal to block this course of action.

12. Second, a large selective capital increase would require that the Bank's own criteria for selective increases depart significantly from the principle of parallelism with the IMF. While some divergence from the actual situation in the Fund 2/ is implicit in any proposal for an independent set of criteria for the Bank, a major departure from the relative rankings in the Fund might give rise to objections from the common Board of Governors of the IBRD and IMF, on the ground that selective increases in the Bank could bias subsequent quota increase discussions in the Fund.3/ Until consultations are conducted on this subject, it is difficult to judge whether this would be a serious obstacle to a large selective capital increase.

13. Third, other problems of relations among members could emerge, as they did in past discussions of selective increases. If increases are proposed for any of the Bank's major shareholders, concerns about their relative ranking could again surface. Increases which would cause a decline in the voting power of developing countries as a group or a realignment of Board constituencies might also cause difficulties. During the preliminary discussions held some months ago on the energy affiliate, the developing countries agreed forcefully that voting arrangements in the prospective affiliate should be so structured as to preserve their voting power as a group. It would not be difficult to think of ways to meet this concern in the event of a selective increase

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2/ As distinguished from the position that would result from use of calculated quotas.

3/ Work has commenced in the Fund on the next quota review (the Eighth Review). It is too early to say whether this review will result in any large-scale selective quota increases.

in the Bank, e.g. through special increases to LDCs to avoid a decline in their combined voting power. While it is thus possible to think of corrective actions to get over some of the problems of inter-relationships among members, they must nevertheless be borne in mind if a large selective capital increase is to be pursued.

JWood/JMurli/THoopengardner:eok