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McNamara Papers

Board actions
Role of the Bank - Misc data, 1977-1979.

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POSSIBLE FINANCIAL POLICY COMBINATIONS FOR VARIOUS SIZE CAPITAL INCREASES

Size of Increase	Commitment Growth Rate	Interval (Years)	Type of Adjustment	Repayment Terms b) Grace Period	Final Maturity	Method of Amortization
$45 billion						
	16%	'79-'83 = 5	No Reduction	4.3	19.0	EPP
		5	Gradual Reduction a)	4.3	21.5	Annuity
	12%	5	No Reduction	4.3	21.5	Annuity
		6	Gradual Reduction	4.3	21.5	Annuity
	10%	6	No Reduction	4.3	21.5	Annuity
		Approx. 7	No Reduction	4.3	19.0	Annuity
$40 billion						
	16%	5	No Reduction	3.8	18.0	EPP
		5	Gradual Reduction	4.3	20.0	Annuity
	12%	5	No Reduction	4.3	20.0	Annuity
		6	Gradual Reduction	4.3	20.0	Annuity
	10%	Approx. 7	No Reduction	4.3	18.0	Annuity
		Approx. 7	Gradual Reduction	4.3	20.0	Annuity
$35 billion						
	16%	5	No Reduction	Not feasible		
		5	Gradual Reduction	4.3	18.0	Annuity
	12%	5	No Reduction	4.3	19.0	Annuity
		6	Gradual Reduction	4.3	19.0	Annuity
		Approx. 7	Gradual Reduction	4.3	18.0	EPP
	10%	5	No Reduction	4.3	20.0	Annuity
		6	Gradual Reduction	4.3	20.0	Annuity
$30 billion						
	16%	5	No Reduction		Not Feasible	
		5	Gradual Reduction	4.3	18.0	EPP
	12%	5	No Reduction	4.3	18.0	EPP
		5	Gradual Reduction	4.3	20.0	Annuity
		6	Gradual Reduction	4.3	19.0	EPP
	10%	5	No Reduction	4.3	19.0	Annuity
		6	No Reduction	4.3	18.0	EPP
		Approx. 8	Gradual Reduction	3.8	18.0	EPP
	8%*	8	Gradual Reduction	4.3	18.0	Annuity
$25 billion						
	16%	5	Not Feasible		Not Feasible	
	14%	5	No Reduction		Not Feasible	
		5	Gradual Reduction	4.3	18.0	EPP
	12%	5	No Reduction		Not Feasible	
		5	Gradual Reduction	4.3	18.0	Annuity
		6	Gradual Reduction	3.8	18.0	EPP
	10%	5	No Reduction	4.3	18.0	EPP
		5	Gradual Reduction	4.3	20.0	Annuity
		6	Gradual Reduction	4.3	18.0	Annuity

* Alternative suggested by Mr. Wahl.

a) a reduction of 6% nominal per yr for 4 yrs (10% + 15% p.a. in real terms).

b) currently 3.8, 18 yrs + EPP (or 4.1, 17.6 + EPP) vs 4.3, 21.5, + annuity as softest of recent yrs + 4.3, 20, + annuity as our future objective

P & B
12/19/77

5/19/77

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

A. Alternative Assumptions Regarding Frequency

	Commitment Growth Rate (Real)				
	0%	3%	5%	7%	9%
Capital Sufficient to Sustain Growth Through		19	23	27	
FY83	19	25	30	35	41
FY84	[25]	32	38	46	55
FY85	[31]	39	48	59	[69]

Other assumptions: (i) "non-disruptive adjustment" interpreted as a decline of 6% in nominal terms each year for four years.
(ii) long-term inflation rate assumed to be 7% per annum
(iii) repayment terms: grace period 4.3 years
final maturity 20 years
amortization - annuity pattern

B. Alternative Assumption Regarding "Non-Disruptive Adjustment"

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

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

C. Alternative Assumptions Regarding Repayment Terms

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

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

P&B
5/18/77

Table I

GROWTH OF EXTERNAL CAPITAL REQUIREMENTS OF DEVELOPING COUNTRIES b)

	1970	1973	1974	1975	1976	1977	1980	1985	Average Growth Rate 1978 - 85
1. Current Account Balance	8.6	4.2	7.6	35.3	23.1	24.6	41.9	78.1	15.5%
2. Current Account Balance adjusted for Reserve Accumulation.	11.2	13.4	25.2	33.3	40.1	42.4	56.6	97.2	10.9%
3. Projected medium- and long-term capital inflow. a/	10.5	19.4	23.7	33.6	39.0	38.4	53.4	92.6	11.7%

a/ Includes grants and private foreign direct investment and exludes capital not elsewhere included (the difference obtained subtracting 2 from 1).

PSB
12/1/77

b) Assumes 7% rate of inflation

	FY75	FY76	FY77	FY78 Program	FY78 Estimate	FY79	FY80	FY81	FY82	FY83
Lending										
IBRD - Loans ($b)	4.3	5.0	5.8	6.1	5.8	6.8	7.7	8.6	9.6	10.7
No. Projects Approved	122	141	161	144	147	160	169	177	184	192
Avg. Amt. ($m)	35.4	35.3	35.8	42.4	39.5	42.5	45.6	48.6	52.2	55.7
(77$m)	40.7	37.9	35.8	39.5	36.8	37.0	37.0	37.0	37.0	37.0
IDA - Credits ($b)	1.6	1.7	1.3	2.3	2.3	2.6	3.0	3.0	3.2	3.4
No. Projects Approved	68	73	67	89	93	95	102	96	96	96
Avg. Amt. ($m)	23.2	22.7	19.5	25.8	24.7	27.4	29.3	31.3	33.5	35.4
(77$m)	26.7	24.4	19.5	24.0	23.0	23.8	23.8	23.8	23.8	23.5
Total No. Projects Approved	190	214	228	233	240	255	271	273	280	288
Pipeline Increase (Equiv. Proj.)	+11	+3	+1	NA						
Total Equiv. Proj. Processed	201	217	229	NA						
End Year Pipeline										
Equivalent Projects	188	191	192	NA						
Proj. Passed Appraisal Dept.	187	182	163	211		195	210	230	247	266
% of Next FY Program	87%	80%	68%	83%		72%	77%	82%	86%	70%
Avg. MW per Project Approved	111.3	113.6	114.7	NA						
per Standard Equiv. Proj.	105.2	118.1	114.6	NA						
Supervision										
No. of Projects	946	1080	1218	1298	1317	1417	1524	1621	1704	1770
Average MW per Project	11.5	12.4	13.2	12.7		12.7	12.7	12.7	12.7	12.7
Avg. MW per Standard Equiv. Proj.	11.6	12.4	13.0	12.4		12.4	12.4	12.4	12.4	12.4
Work Program a/										
Lending	521	569	587	674		698	721	742	764	756
Supervision	210	259	310	317		346	372	396	416	432
Economic/Sector	202	202	227	211		211	211	211	211	211
Other	(151)	(154)	(165)	162		162	162	162	162	162
TA	30	19	15							
ADC	7	8	11							
ADV	15	23	26							
POL	15	23	25							
RES	19	25	28							
Other	65	56	60							
Total	1084	1184	1289	1364	—	1417	1466	1511	1553	1591
Staff	814	904	1007	1060		1102	1144	1182	1219	1251
Consultants	125	143	156	171		179	186	193	198	204
FAO	58	50	41	53						
UNESCO	18	15	19	14		74	74	74	74	74
WHO	7	4	4	5						
UNIDO	3	3	1	2						
DPS	22	17	19	16		19	19	19	19	19
YPs	36	47	41	43		43	43	43	43	43
Other	1	1	1	-		-	-	-	-	-
Staff - own	814	904	1007	1060		1102	1144	1182	1219	1251
- others	3	2	2	2		2	2	2	2	2
Subtotal	817	906	1009	1062		1104	1146	1184	1221	1253
MAA	186	199	213	207		215	218	219	220	220
%	(22.8%)	(22.0%)	(21.1%)	(19.5%)	(20.2%)	(19.5%)	(19.0%)	(18.5%)	(18.0%)	(17.5%)
MAA + Subtotal	1003	1105	1222	1269		1319	1364	1403	1441	1473
Overhead	248	262	285	305		317	327	337	346	354
%	(24.7%)	(23.7%)	(23.3%)	(24.0%)	(24.0%)	(24.0%)	(24.0%)	(24.0%)	(24.0%)	(24.0%)
Total	1251	1367	1507	1574		1636	1691	1740	1787	1827
Less: Overtime	93	130	122	110	(7.0%)	107	111	114	117	120
Paid Myrs.	1158	1237	1385	1464		1529	1580	1626	1670	1707
Fill Ratio	.92	.93	.97	.959	.97	.97	.97	.97	.97	.97
Auth. Positions	1251	1337	1430	1527		1576	1629	1673	1722	1760
PAID Manyears										
Op. Dept.	1158	1237	1385	1464		1529	1580	1626	1670	1707
% Increase	8.7%	6.8%	12.0%	5.7%		4.4%	3.3%	2.9%	2.7%	2.2%
Venezuela TA	-	5	3	4.0						
Support Dept.	679	718	747	762		779	792	804	815	824
% Increase	3.0%	5.7%	4.0%	2.0%		2.2%	1.7%	1.5%	1.4%	1.1%
Contingency	-	-	-	8		20	25	36	45	64
TOTAL	1837	1960	2135	2238		2328	2397	2446	2530	2595
% Increase	6.6%	6.7%	8.9%	4.8%		4.0%	3.0%	2.9%	2.6%	2.6%
Staff on Duty End FY										
Professional	1883	2024	2170	2321		2393	2466	2540	2616	2695
% Increase	7.4%	7.5%	7.2%	7.0%		3.1%	3.0%	3.0%	3.0%	3.0%
Administrative Budget										
Current $m	157.5	185.1	213.1	246.0						
FY77 $	186.9	199.9	213.1	227.9						
% Increase Current	17.4%	17.5%	15.1%	15.4%						
% Increase FY77$	4.1%	7.0%	6.6%	6.9%						

a/ Excludes RTA and VTA.

P & B
11/23/77

The following excerpts are from the report on the CIEC Conference:

From CIEC Report pages 75, 76 and 77 (6/2/77)

Multilateral development financial institutions

(a) General

Flows from multilateral development institutions to developing countries should continue to increase substantially, and negotiations now in progress to increase contributions to these institutions by all countries in a position to do so should be brought to an early and successful conclusion.

The participants in CIEC invite the multilateral development finance insti-sutions to consider appropriate measures to achieve the following objectives. The policies and operations of these institutions should continue to respond increasingly to the development priorities and basic needs of the developing countries. In this context, equitable and effective participation of the developing countries in the decision making process in the competent organs of these institutions should be ensured in accordance with the existing and evolving rules.

(b) IBRD and regional development banks

To help meet the capital requirements of developing countries and to assist them to achieve their development objectives, the regular lending of the World Bank and regional lending institutions should increase substantially consistent with the evolving capital structure of these institutions.

All members of the World Bank should complete as soon as possible the internal procedures necessary to implement the recently approved selective increase in the Bank's capital. Participants in CIEC welcome the agreement reached recently by the Executive Board of the Bank on indicative planning assumptions for an increased lending programme of \$6.1 billion in FY 1978 and \$6.8 billion in FY 1979.

The capital base of the World Bank should be increased sufficiently to permit its lending to rise adequately in real terms in the years ahead. Negotiations for a general increase in the capital of the Bank should be undertaken, as soon as possible, so as to allow the Bank to achieve its lending programme of \$6.8 billion in FY 1979 and thereafter further increases in its lending in real terms.(1)

The Third Window of the World Bank should be brought to the original target of \$1 billion by contributions from wherever possible.

(1) This paragraph should be read together with any agreed recommendations relating to the financing of energy and other priority sectors in other conference documents.

Special attention should also be given to expanding the resource base of regional development banks where needed in order to ensure that their concessional and regular lending is increasing adequately to help meet the capital requirements of the developing countries and to assist them to achieve their development objectives.

Participants in CIEC stress the importance of the above mentioned institutions keeping under review their lending terms to ensure that they are fully responsive to the special circumstances of developing countries.

(The paragraphs (see footnote (1)) in which agreed recommendations arè made most explicit are 10 and 11 below. These state:

10. That the IBRD/IDA be invited to evaluate on a priority basis in consultation as appropriate with the IBRD/IMF Development Committee how it can most effectively expand its activities.........in order to increase capital flows, on concessional terms where appropriate, into the development of indigenous energy resources in the developing countries, participarly the energy importing developing countries.

11. That member countries through their Governors in the IBRD take account of the capital requirements associated with the expansion of its activities in the energy area when deciding on the general capital increase in the Bank's resources, while taking fully into account the need to assure that the Bank's activities in other priority areas are not prejudiced.

Similar, but less explicit, references to the need for adequate resource input by the international financial institutions are made in discussing requirements in agriculture, infrastructure, etc.)

(e) Policies of international financial institutions

International financial institutions are invited to take appropriate measures:

(1) To implement the agreement reached at the 7th Special Session to enhance the real value and volume of assistance to developing countries and to ensure that the developing countries obtain the largest possible share in the procurement of equipment, consultants and consultancy services.

(2) To increase where appropriate their local currency financing.

From the text of the communique and appendix issued after the London Summit (5/9/77)

> "We support multilateral institutions such as the World Bank, whose general resources should be increased sufficiently to permit its lending to rise in real terms.
>
> We shall work:
>
> To support such multilateral lending institutions as the World Bank whose lending capacity we believe will have to be increased in the years ahead to permit its lending to increase in real terms and widen in scope."

SELECTED FINANCIAL RATIOS
ASSUMING $30, ~~AND~~ $35 BILLION CAPITAL INCREASES

	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87
Interest Coverage Ratio										
a) $30 billion a/	1.15	1.16	1.16	1.16	1.16	1.17	1.18	1.19	1.19	1.18
b) $35 billion b/	1.15	1.16	1.16	1.16	1.16	1.17	1.18	1.19	1.19	1.18
c) $35 billion c/	1.15	1.16	1.16	1.17	1.19	1.20	1.21	1.21	1.21	1.20
Reserves/Disb. Loans										
a) $30 billion a/	13.2	12.1	11.1	10.3	9.9	9.6	9.5	9.5	9.6	9.7
b) $35 billion b/	13.2	12.1	11.1	10.3	9.9	9.6	9.5	9.6	9.7	9.9
c) $35 billion c/	13.2	12.1	11.1	10.4	10.1	10.0	10.1	10.2	10.3	10.5
Usable Equity/Disb. Loans										
a) $30 billion a/	28.3	26.1	24.0	21.3	19.3	19.4	19.3	19.2	18.2	17.3
b) $35 billion b/	28.3	26.1	24.0	21.3	19.3	19.6	19.8	19.9	18.8	17.9
c) $35 billion c/	28.3	26.1	24.0	23.1	22.5	22.1	21.6	21.3	20.1	19.2
Usable Equity/Disb. Loans and Liquid Holdings										
a) $30 billion a/	19.4	18.3	17.4	16.1	15.0	15.3	15.4	15.8		
b) $35 billion b/	19.4	18.3	17.4	16.1	15.0	15.4	15.7	16.3		
Debt/Equity(Incl. Call. Cap)										
a) $30 billion a/	.81	.86	.91	1.04	1.18	1.07	1.00	.95		
b) $35 billion b/	.81	.86	.91	1.04	1.18	1.03	.95	.88		
Debt/Equity(Excl. Call. Cap)										
a) $30 billion a/	4.19	4.52	4.78	5.25	5.73	5.59	5.52	5.37	5.65	5.93
b) $35 billion b/	4.19	4.52	4.78	5.25	5.73	5.52	5.39	5.16	5.44	5.70
c) $35 billion c/	4.19	4.52	4.78	4.76	4.92	4.80	4.84	4.77	5.02	5.27
Liquidity Ratio										
a) $30 billion a/	50%	47%	44%	43%	40%	40%	40%	40%		
b) $35 billion b/	50%	47%	44%	43%	40%	40%	40%	40%		
Liquid Holdings/Undisb. and Funded Debt										
a) $30 billion a/	21.3	20.2	18.2	16.1	14.9	14.1	13.6	12.3		
b) $35 billion b/	21.3	20.2	18.2	16.1	14.9	14.3	13.9	12.4		
Usable Callable Capital ~~of Part I Countries~~ ($m)										
a) $30 billion a/	23000	24400	25800	25800	25800	32300	38900	45400		
b) $35 billion b/	23000	24400	25800	25800	25800	33400	41100	48700		
c) $35 billion c/	23000	24400	25800	30300	34900	39500	44100	48700		
Funded Debt/~~Part I~~ Usable Callable										
a) $30 billion a/	.90	1.01	1.08	1.24	1.43	1.29	1.22	1.15		
b) $35 billion b/	.90	1.01	1.08	1.24	1.43	1.25	1.15	1.08		
c) $35 billion c/	.90	1.01	1.08	1.04	1.03	1.03	1.06	1.06		

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a/ Assumes $1.8 billion in usable paid-in over the period FY83-85.
b/ Assumes $2.1 billion in usable paid-in over the period FY83-85.
c/ Assumes $2.5 billion in usable paid-in over the period FY81-85.

P & B
1/6/78

Distribute to Boards

Factors +

omit

omit

omit

omit

move

move

add footnotes

state assumptions on lending + cap after '83

Dis Rec / Equity (+ Call Cap)

Total Rec / Equity (+ Call Cap)

Salomon Brothers | Morgan Stanley & Co. Incorporated | The First Boston Corporation

January 6, 1978

Mr. Eugene H. Rotberg
Vice President and Treasurer
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C. 20433

Dear Mr. Rotberg:

You have asked us to review certain historical and projected financial information concerning the International Bank for Reconstruction and Development (the "Bank"), particularly data relating to its external financing requirements. This data indicates that during the five year period ending June 30, 1983, the Bank plans to issue a total of $33.4 billion of debt, $14.75 billion of which is projected to be sold in the U.S. capital markets. You have asked our opinion as to the feasibility of raising such an amount in the U.S. capital markets and the impact such a borrowing program might have upon the Bank's financing costs.

Feasibility of the Projected U.S. Financing Program

During the five year period ending June 30, 1978, the Bank is expected to have issued $4.35 billion of its securities in the U.S. capital markets as compared to the projected borrowing program of $14.75 billion. This represents more than a three-fold increase, and an annual rate of growth within the projected period of about 17%, which is substantially in excess of the historical rate of growth in the U.S. capital markets or projected rates of growth in the U.S. economy.

While the projected borrowing program is very ambitious, we believe it is feasible based upon current U.S. capital market and world economic and political conditions. Changes in such conditions could, of course, have a significant impact upon the Bank's ability to raise the projected amounts. In addition, such a borrowing program can be successful only if the Bank maintains the support of its member governments as well as its Aaa/AAA ratings and financial strength. A weakening in its financial condition, whether actual or perceived, could affect its ability to achieve its borrowing objectives. It is important, therefore, that the Bank continue its financial policies of high liquidity, relatively low debt/equity ratios and maintenance of a reasonable relationship between the average life of loans and borrowings. Moreover, the Bank should continue its present operating policies with respect to borrower creditworthiness, prohibition against rescheduling of debt repayments and the maintenance of adequate spreads between interest rates charged to borrowers and the Bank`s cost of capital.

Impact of Projected Borrowing Program Upon Financing Costs

While we feel that in the absence of marked changes in the conditions discussed above the projected borrowing program is feasible, it is unlikely it can be accomplished without some adverse impact on the existing yield spread relationship between the Bank`s securities and U.S. Government, agency and corporate obligations of similar coupon and maturity. This is a result primarily of the projected increase in the supply of Bank securities.

Substantial and constantly increasing new issue volume adversely impacts yield spreads because the greater supply exceeds the growth in capacity of existing investors to absorb it. For example, in 1973 and 1974, Federal agencies sold $22.2 billion and $19.7 billion, respectively, of securities as compared to an average of $7.0 billion during the period 1970-1972. This increased financing activity resulted in higher spreads relative to U.S. Treasury obligations. During the heaviest financing periods, the yield spread in the five year maturity range widened from nine to 42 basis points in 1973 and from 14 basis points to 56 basis points in 1974. As agency financing slackened during subsequent years and the issues were absorbed by the market, the agency/Treasury relationship returned to more normal levels. More recently, a similar phenomenon has occurred with respect to Treasury and corporate yield spreads. With the large volume of Treasury financings since 1975 and the relatively small supply of intermediate term corporates, this spread has become unusually narrow, resulting in certain corporate issues presently trading at or through the level for comparable Treasury obligations.

In order to minimize the impact of the increased supply of Bank securities and improve the market`s ability to absorb them, it will be necessary to continue to develop the capacity of existing investors, to broaden penetration of those classes of investors that presently purchase Bank securities and, to the extent possible, reach new groups of investors. In addition, it will be necessary to ensure that investors are not lost because of legal or policy restrictions which limit or preclude their purchase of Bank obligations.

Life insurance companies provide an important opportunity to expand the Bank`s investor base. At December 31, 1977, it was estimated that their holdings of corporate and foreign bonds were $139.7 billion, or 35% of the total amount outstanding. In spite of their preference for long-term issues, life companies have typically purchased only 10% of the Bank`s recent 25-year issues. In part, this has been a result of their preference for higher-yielding, low and medium grade credit issues, and in part a result of their preference for private placements, a market which the Bank has been reluctant to enter because of the interest premium over public rates which typically has been required. However, primarily because of substantial cash inflows in recent years, insurance companies have been purchasing more high grade issues, such as those of Canadian provinces and prime industrial credits, and the yield spread between public and private issues has narrowed considerably. Accordingly, we feel that it is appropriate to reconsider financing in this market. To the extent private placements would reach insurance company investors that normally do not participate in the Bank's public issues, it would broaden the Bank's investor base and reduce pressure on the public market, and could result in a lower overall cost of funds, more than compensating for the slight premium required in the private market. In this regard, perhaps the Bank should place greater emphasis on the major insurance companies in its investor relations program.

A key to expanding investor interest in the Bank's securities, particularly among pension funds, is strengthening the secondary market for Bank securities. We have in the past addressed the question of what steps can be taken to improve secondary market performance for Bank issues. Recommendations previously made included expansion of the investor relations program, an increase in the number of market-makers and a continual analysis of the terms of new issues such as a shortening of the average life for long-term issues. Many of these recommendations have been implemented, and we have seen some improvement in trading performance as a result. We would recommend continuing these efforts, particularly the investor relations program which has proved to be highly successful during the past few years. These efforts are important since, as we have discussed earlier, we have received comments from some investors that they have reached their investment limit with respect to Bank securities. In some cases, this limit is determined by internal policy, but many times it is imposed by law. Since the Bank's plans call for a rate of growth substantially in excess of the anticipated growth in the capital markets, this problem could become exacerbated. We believe, however, that in many cases it may be possible to overcome the internal policy restrictions through increased investor education and continued improved secondary markets. While we do not feel that legal restrictions will substantially limit the ability of institutions to buy Bank securities, we have undertaken a study which should be available within ten days that will explore this subject more fully.

An area mentioned in the past for broadening the sources of funds for the Bank is sales to individuals. The U.S. market for Bank securities and for the obligations of most other high quality issuers has generally been dominated by institutional investors who prefer quality to yield. The individual investor during most periods has been very much less important since they generally prefer yield to quality, except for the debt obligations of those issuers that are extremely well known as "household names" such as the U.S. Treasury, General Motors, Exxon or AT&T. As a result, while we feel that broader individual investor interest should be cultivated, this group will probably not constitute a major source of funds for the Bank in the future except during relatively infrequent periods of savings disintermediation due to extremely high interest rates.

Finally, we believe that the Bank should continue to utilize capital markets outside the U.S. and consider entering the international dollar market. We believe that such an offering by the Bank would be successful and provide an opportunity to reach foreign investors that do not participate in the Bank's dollar issues or its offerings in other currencies, although there could be some overlap. To the extent such issues are purchased by new investors, pressure on the U.S. market also would be reduced.

We hope that the foregoing has been useful and are prepared to discuss the subject further at your convenience.

Very truly yours,

Salomon Brothers

By: ______________________

Morgan Stanley & Co. Incorporated

By: ______________________
Managing Director

The First Boston Corporation

By: ______________________
Senior Vice President

Record Removal Notice

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File Title	Barcode No.
Board Actions - Role of the Bank - Board papers 05	1770716

Document Date	Document Type
Feb 14, 1978	Notes

Correspondents / Participants

Subject / Title
General Capital Increase of the Bank

Exception No(s).

☐ 1 ☑ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 A-C ☐ 10 D ☐ Prerogative to Restrict

Reason for Removal
Communications of Executive Directors' Offices

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
Chandra Kumar	Aug 4, 2014

Archives 1 (May 2012)

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: GCI Steering Group

DATE: March 23, 1979

FROM: Joe Wood

SUBJECT: Increases in IBRD Capital After the GCI

1. In response to a request from Mr. Fried, Ray Goodman and I met with him on March 23 to discuss the outlook for further IBRD capital increases beyond the GCI.

2. Following Mr. McNamara's suggestion, I gave Mr. Fried two papers at the start of the meeting (copies attached). The first gives a general answer to the question he had raised. The second shows when the "disbursement limit" on IBRD lending would be reached after a $40 billion GCI, given certain assumptions about nominal growth in IBRD lending after FY83. Mr. Fried's only comment on the first paper was that the possibility of amending the Articles was a "different issue". He seemed to agree with the other points made in the paper. On the second paper, he expressed concern about using "disbursement limit" figures. He had worked hard to educate the Treasury to think in terms of "commitment limits" and did not want to risk renewed confusion. I agreed that "commitment limits" were more meaningful in relation to deadlines for action and noted that "commitment limits" were normally two to three years before "disbursement limits".

3. Ray Goodman then outlined some of the work which has been done to date on the IBRD Lending Criteria paper. He explained that four categories of countries have been considered: (a) those currently below the IDA eligibility benchmark; (b) those middle income countries which are not expected to reach a per capita income level as high as 25% of OECD North during the 1980s (except for Brazil, Mexico, Korea and Malaysia); (c) Brazil, Mexico, Korea and Malaysia; and (d) those middle income countries whose per capita incomes are expected to reach 25% of OECD North in the next decade. The first two groups could, on average, increase their borrowings from the IBRD by 7% to 8% per annum in real terms between the first half of the 1980s and the latter half. The fourth group has been assumed to "graduate", in some casesquite soon (Yugoslavia, Romania) and in other cases a few years from now (Argentina, Portugal). Alternative assumptions have been tried for the four middle income countries which are highly creditworthy for private borrowing. In one alternative, they were held flat in real terms; in a second alternative, they are held flat in nominal terms. In either case the Bank as a whole continues to expand in real terms in the latter half of the 1980s (at a rate of roughly 2.5% to 5% per annum).

4. Mr. Fried accepted this result as reasonable, given the assumptions underlying it. He suggested, as an alternative, that we might consider what set of policy assumptions would be consistent with no further capital increase for the Bank. After some discussion, we agreed that inflation-induced capital requirements ought to be ignored in such an approach and that the question could therefore be reformulated as follows: what set of policies would be consistent with 0% real growth after FY83?

5. Mr. Fried also inquired about the prospects for future growth in IDA. Ray Goodman explained that the IBRD projections for the IDA eligible countries had made certain assumptions about ODA flows but had not tried to distinguish IDA prospects from the overall ODA prospects. Mr. Fried seemed reluctant to accept this and urged that we give thought to the relationship between IBRD and IDA growth. We cautioned him not to expect this topic to be treated in the forthcoming Board memorandum on IBRD lending criteria.

Attachments

DJW:omc

March 23, 1979

The question has been raised as to whether - and when - the IBRD may need a further capital increase, assuming a $40 billion General Capital Increase is approved and subscribed in full.

It is not obvious that the IBRD will require any further capital increase, even if one assumes that IBRD lending to low and middle income developing countries continues to grow in real terms throughout the 1980s. Continued real growth in commitments to this group of countries may be offset, at least in part, by negative real growth in commitments to higher income countries or to middle income countries which are able to finance their development programs on reasonable terms with private capital.

The need for capital in the future will be significantly influenced by what happens to the rate of inflation on internationally traded goods. If this rate of inflation can be reduced to the levels common prior to the last few years, the need for any further IBRD capital increase will be greatly reduced and deferred in time.

A third crucial factor affecting the IBRD's need for capital in the 1980s is the possibility of liberalization of the Bank's statutory limit on lending. At present, every dollar of disbursed and outstanding loans must be matched by a dollar of subscribed capital or reserves. In the early 1970s the financial markets began to accept the callable capital of countries other than the United States as backing for IBRD operations. Partly because the markets absorb change most easily if it takes place quite gradually, the Executive Directors decided against a liberalization of the statutory limit as part of the current General Increase. The possibility of liberalization would need to be re-examined in the 1980s. Were the statutory limit to be liberalized, the Bank's capital requirements would once again be greatly reduced and/or deferred in time.

DJW:omc

March 23, 1979

With a \$40 billion General Capital Increase, the Bank's statutory limit (excluding the 33,500 "membership" shares) would be approximately \$90-\$92 billion at the end of FY90 and could be increasing by \$1 billion or more per annum becuase of retained earnings.

The following table shows projections for IBRD disbursed loans on various assumptions about commitment growth after FY83: (current \$ billion)

	Nominal Increase in IBRD Commitments: FY84-88		
	5%	9%	12%
FY89	76	79	81
FY91	86	93	98

N.B. Repayment terms: 4.3; 18.0; EPP
Disbursement rates unadjusted.

DJW:omc

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

Office of the President

Dear Mr. President:

On April 24, the Executive Directors of the World Bank are scheduled to vote on a $40 billion increase in the authorized capital stock of the Bank. Directors representing each of the 133 member countries other than the United States have indicated they will vote in favor of the increase. The purpose of this letter, and the attached "technical" note, is to urge that the United States Director also be permitted to vote for the increase.

An affirmative vote on April 24 would not obligate the United States to subscribe to or pay for any additional shares. But lack of an affirmative vote on April 24 would have immediate adverse effects. The Bank's lending program for the year beginning July 1, 1979, would almost certainly have to be cut back by over $1.5 billion, seriously reducing Bank lending to such major borrowers as Mexico, Brazil, Egypt, and Korea -- this in the face of growing requirements for long-term capital on the part of developing countries and repeated statements by the United States and other OECD governments in support of an expanding Bank lending program. In the short run, the political implications could be expected to be even more severe than the financial ones, especially in view of the forthcoming UNCTAD Meeting and Tokyo Summit.

It is for these reasons that I urge you to permit the U.S. Director to join his colleagues representing all other member countries in voting in favor of the Capital Increase on April 24. A consensus on the Increase including the United States is very much in the interest of the international community and, I hope you will agree, in the best interest of the United States as well.

Respectfully,

Robert S. McNamara

The President
The White House

4/11/79
read by Blumenthal as basis
for arguing for US
favorable vote on GCI - he
agreed to do so on 4/18 -

Technical Note On the Requirement For a Capital Increase For the World Bank

The Bank's Articles of Agreement require that the volume of loans outstanding and disbursed not exceed its total capital and reserves. If there were no increase in Bank capital, the Bank would be compelled -- because of its Articles -- to cease making new commitments altogether about three years from now. As a matter of simple prudence, the Executive Directors have decided that the Bank should not continue to lend right up until the last possible moment and thereby risk a highly disruptive, sudden halt in its operations. Accordingly, more than two years ago (in March 1977), the Directors agreed to act on the General Capital Increase no later than June 1978. The understanding was that, if a General Increase could not be agreed by then, Bank lending would be limited to roughly $6 billion a year, an amount which could have been sustained for an indefinite period without a General Increase.

A little over a year ago, the U.S. Director requested a change in this timetable. The U.S. request for a change was accompanied by a clear statement of support for a planning assumption of 5% per annum real growth in Bank commitments and for the significant increase in capital which such a lending program implies. In light of this statement and in view of the strong statements in support of a General Increase made at the London Summit, in the CIEC Report, and by U.S. Government representatives at the Bank/IMF Annual Meeting, other governments agreed to the change in timing and to maintaining a growing Bank lending program. A figure of $6.8 billion for the year ending June 30, 1979 was tentatively approved, subject to review in early calendar 1979. Because of the expectation that agreement on the General Increase is imminent, the current year's program has remained at $6.8 billion and plans have proceeded for next year's program at $7.6 billion. The realization of these plans depends critically on the action taken April 24.

The action proposed for April 24 is approval of a resolution providing for an increase in the authorized capital stock of the Bank by $40 billion and permitting individual countries to subscribe to that increase in amounts no greater than those shown in the resolution. An affirmative vote on April 24 would mean that the resolution goes on to the Board of Governors for final approval. Neither approval in the Executive Board on April 24 nor subsequent approval by the Board of Governors obligates any country to subscribe to shares or to pay funds to the Bank. What it does do is permit those governments who wish to subscribe to do so.

Countries need make no decision regarding subscription to the shares authorized for them until 1982 and may then phase their subscriptions over several years. Were the United States to follow this course, no actual subscriptions by the U.S., and hence no legislation providing for subscriptions, would be required until the fiscal year 1982. If the United States were to subscribe to the maximum number of shares authorized for it (it could subscribe to all, none or any amount in between), a total payment of $658 million would be required. This could be spread over the four years FY82-FY85 at the rate of $165 million per year.

Under U.S. law its Governor can only vote for the increase after specific legislative approval has been obtained. Should that legislation (which itself need not involve either authorization for subscription of shares or payment for purchase of shares) be delayed beyond mid-1980, it is possible that the resolution could be approved prior to final U.S. action since only a 75% majority is required and the United States currently has 21.5% of the total. Once the resolution is approved by the Board of Governors the United States would be permitted -- but not obligated -- to subscribe up to a maximum of 72,760 shares.

1. The U.S. is prepared to vote in favor of sumbitting to the Board of Governors a Resolution recommending:

   a. An increase in the authorized capital stock of the Bank of 331,500 shares, with a value not in excess of $40 billion, and

   b. That each member be permitted to subscribe to a portion of those shares up to a maximum stated in the Resolution which in the case of the U. S. would be 72,760 shares with a maximum value of $8.8 billion a/.

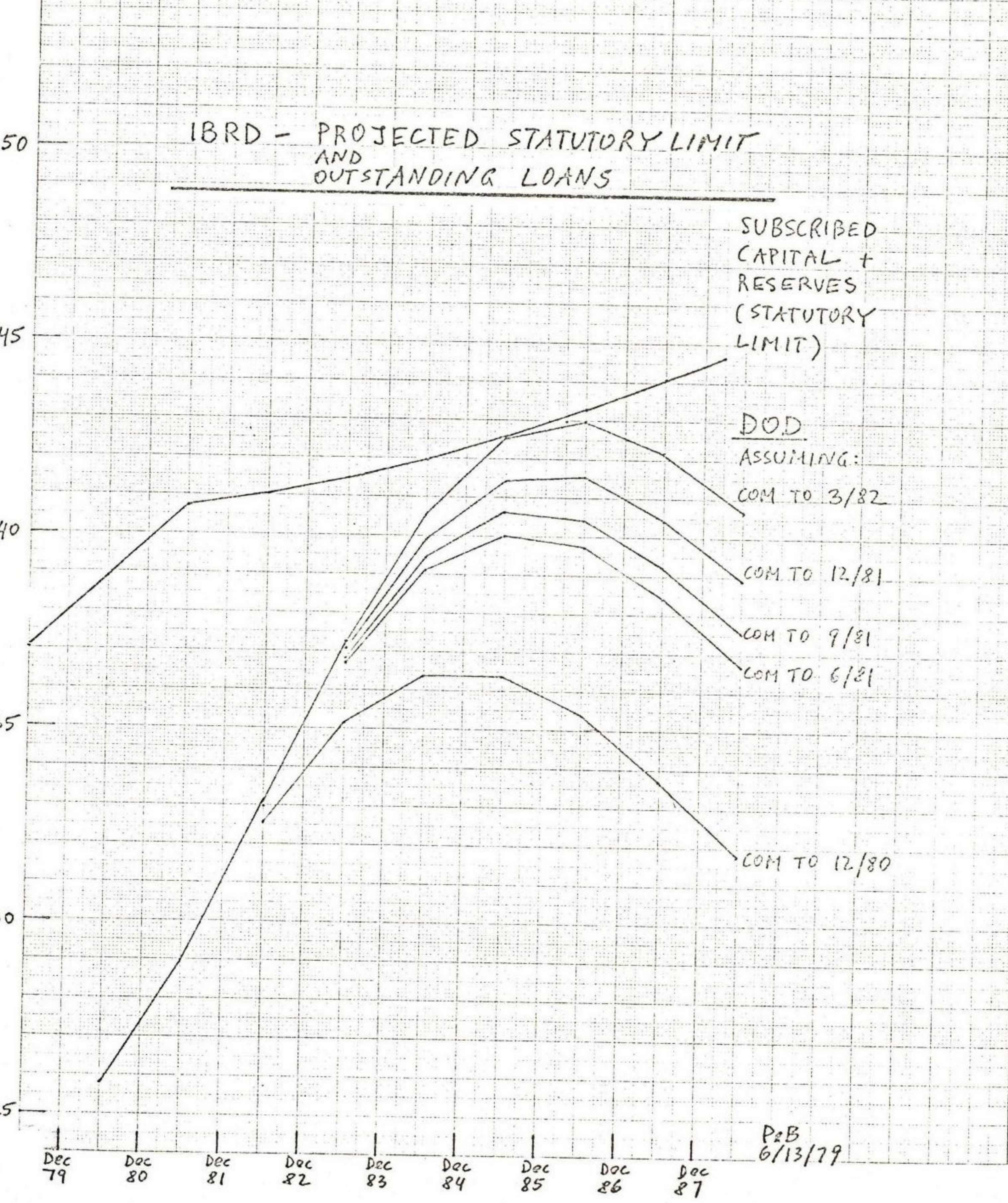
2. We recognize, as I know you, my fellow Directors, do, that if the Governors act favorably on the Resolution the action in no way obligates a member to subscribe to all or any of the shares allotted to it. I make this statement because while it is my Administration's plan to recommend to the Congress that the U.S. exercise its subscription rights, our consultation with the Congress to date has not resulted in an agreement regarding the subscription level for which the Congress would grant appropriations.

a/ If the U.S. were to subscribe to the total number of shares allotted, it would be obligated to pay to the Bank 7 1/2% of the subscription price according to the following schedule:

FY 82	* 13✓ million
FY 83	13✓ $~~165~~ million
FY 84	13✓ ~~165~~ "
FY 85	13✓ ~~165~~ "
FY 86	13✓ ~~165~~ "

the basis on which I persuaded U.S. to vote for the [illegible]

copy to: Ed Fried 6/13
Ernie


IBRD - PROJECTED STATUTORY LIMIT AND OUTSTANDING LOANS
SUBSCRIBED CAPITAL + RESERVES (STATUTORY LIMIT)
DOD
ASSUMING:
COM TO 3/82
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COM TO 9/81
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