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Folder Title: Ernest Stern Chronological files Senior Vice President Operations - Correspondence - Volume 60

Folder ID: 1850385

Series: Development Committee files

Dates: 11/03/1986-12/23/1986

Sub-Fonds: Ernest Stern files

Fonds: Records of Individual Staff Members

ISAD Reference Code: WB IBRD/IDA STAFF-10-04

Digitized: 6/25/2020

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Washington, D.C.

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1850385
A1995-357 Other #: 13 213469B
Ernest Stern Chronological files (Economic Advisory) - Correspondence - Volume 60

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The World Bank

ERNEST STERN
Senior Vice President
Operations

December 23, 1986

Mr. Dubey

Vinod -

Please have a look at this revised memo. Amend
it as you see fit and let me have it back
on January 5 for signature.

Ernest Stern

*Ernest Stern
Senior Vice President
Operations*

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

December 23, 1986

Mr. A. Nachmanoff
S. G. Warburg & Co. Ltd.
35 King William Street
London EC4R9AS

Dear Arnie:

Sorry it has taken so long to respond to your request for informal comments on the Brazil RCF proposal.

Briefly, I see several issues with the proposal:

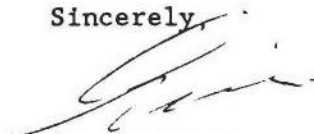
- o It envisages that the World Bank would guarantee interest. This we have never done and have no authority for. Our general view has been that this risk should be borne by the lenders as part of the normal commercial risk. Even in cases where we have used our guarantee to extend maturities beyond what was available in the market, we have not covered interest on the extended maturities. Moreover, concern about interest defaults would suggest a much lower creditworthiness assessment than I think is warranted for Brazil.
- o The proposal assumes a fully accelerable guarantee. We do not believe that this is appropriate for much the same reasons.
- o As to the guarantee proposal itself, it is not clear to me why, for a borrower trying to get back into the commercial market, a guarantee would be either necessary or desirable for an operation which is (i) backed by zero coupon bonds, and (ii) backed, in addition, by a reserve fund. Together these will be maintained at 105 per cent of the principal. Since the initial amounts will be about 34% of the face value, there is not much risk left. Moreover, although I have not checked this, there may be a legal problem with guaranteeing a borrowing of which a third goes not to finance investment but for collateral.

- o The cost of this operation to the Brazilians is considerable. They have to borrow \$ 1.5 billion to get less than \$ 1 billion in usable funds. In addition, they will lose \$ 250 million of World Bank lending, and another \$ 250 million will go to reduce commercial bank commitments. This seems like a very heavy negative leverage.
- o I have not checked our interest in issuing ZCBs, but that is not central.

Again, my apologies for the delay.

Best wishes for a happy New Year.

Sincerely,



Ernest Stern
Senior Vice President
Operations

OFFICE MEMORANDUM

DATE: December 23, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee

SUBJECT: PAKISTAN - Proposed Cement Industry Modernization Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of Mr. Cheetham's memorandum of December 17, 1986, with the following comments/qualifications:

- (i) The efforts to ensure a favorable policy framework for the development of the cement subsector are strongly endorsed and should be vigorously pursued;
- (ii) One of the elements of the corporate strategy to be developed is the establishment of specific objectives and implementation plans for modernization and rationalization investments. It is assumed that the investments proposed under this project are of such high priority that they would fit in with any plans which would be established subsequently;
- (iii) Should we consider some appropriate form of assistance to the new private plants located in the south which are apparently experiencing financial difficulties?
- (iv) The training component of the proposed project should be fully defined and agreed early in the project cycle, so that it can be implemented expeditiously; and
- (v) The rationale for establishing a full-fledged cement research institute in Pakistan should be reconsidered, and if considered essential, clearly spelled out in the project appraisal documentation.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 22, 1986

TO: Operational Vice Presidents

FROM: Ernest Stern, SVP, Operations *ES*

SUBJECT: Operations Efficiency Indicators

Those of you who participated in the recent introductory briefing to new Executive Directors and Alternates on Bank Operations are familiar with the background material used, but I thought it might be of more general interest.

While efficiency measurements are necessarily an elusive concept when applied to the diverse, complex range of Bank Operational work, these data are at least indicative of significant efficiency improvements in those activities where there are quantitative indicators. In particular, over the past decade:

- Administrative Expenses for higher level and consultant staff-years have declined by 7%, in constant dollars.
- Administrative Expenses per million dollars lent have declined by almost 23%.
- Average staffweeks spent per project completed (i.e., from identification through completion) have declined by over 12%.
- Our fastest growing work program input, at over 5% per annum, has been Country Economic and Sector Work--a key input for elaborating our country assistance strategies and central for effective aid coordination.
- The Bank has an outstanding portfolio of some 1850 projects valued at \$115 billion. Clearly, our attention to supervision of this asset must remain a top priority. Staff inputs for supervision have grown at an annual average rate of 4.7% over the decade, which is in line with the 4.6% annual growth in the number of projects under supervision. This may have been inadequate for many of the challenges of project redesign and implementation, particularly in the low income countries.

Of course, these aggregate indicators cloud a wide variation of input requirements and efficiency, reflecting country variations as well as internal staff and management factors.

While the record appears good, we must continue our efforts to improve upon it. Some of our recent innovations, especially the Management Information System, the Country Assistance Management process, and the revised loan processing procedures are expected to reinforce these efforts by permitting greater clarity of objectives, greater delegation of responsibility and clearer accountability, increased responsiveness to changing borrower needs and streamlining of internal clearance processes.

Attachments

cc: Directors, Division Chiefs

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OPERATIONS
EFFICIENCY INDICATORS

TABLE 1

	FY77	FY86	CHANGE			FY87 BUDGET	CHANGE OVER FY86	
			AMOUNT	%	ANNUAL AVE.		AMOUNT	%
(i) Administrative Expenses (87\$ '000)	219,171	311,284	92,113	42.0%	4.0%	312,700	1,416	0.5%
Total Paid HL + consultant SY	1,764	2,694	930	52.7%	4.8%	2,755	61	2.3%
Admin. Exp. per HL + consultant SY (87\$ '000)	124.2	115.5	-8.7	-7.0%	-0.8%	113.5	-2.0	-1.8%
(ii) Number of Active Borrowers a/	92	100	8	8.7%	0.9%	103	3.0	3.0%
(iii) Commitments (IBRD + IDA) (87\$ '000)	8,988	16,547	7,559	84.1%	7.1%	17,833	1,285	7.8%
Admin. Exp. per million dollar lent (87\$ '000)	24.4	18.8	-5.6	-22.9%	-2.3%	17.5	-1.3	-6.8%
Lending staffyears	649	780	131	20.2%	2.1%	801	21	2.7%
(iv) Avg. SY per project in 3-year horizon	0.91	1.05	0.14	15.4%	1.1%	1.03	-0.02	-1.9%
(v) Avg. SW per project completed (net)	130	114 b/	-16	-12.3%	-1.4%	132	18	15.8%
(vi) Avg. SW per project supervised	12.5	12.8	0.3	2.4%	0.3%	12.6	-0.2	-1.6%
(vii) Avg. SW per PCR	15.8	9.5	-6.3	-39.7%	-3.8%	11.1	1.6	16.8%
(viii) MAA and Overhead as % of Total WP c/	27.0%	27.8%	0.8	2.9%	0.4%	27.9%	0.1	0.3%

a/ An active borrower is defined as a borrower with at least one lending operation in the 3-year lending program.

b/ Budgeted figure for FY86 was 131 staffweeks per completed project. Actual FY86 data suggest a sharp decline to 114 staffweeks, primarily due to the sector and country mix. We anticipate that the FY87 completion cost will be close to the budgeted level of 132 staffweeks.

c/ Level of management has remained almost constant as a percentage of the total work program. The slight increase in overhead reflects the increased emphasis on staff training and a change in leave policy.

HL = Higher Level, i.e. level 18 and above.

SY = Staffyear

SW = Staffweek

PCR = Project Completion Report

MAA = Management and Internal Administration; Overhead includes leave, staff training and holidays.

WP = Work Program

ADMINISTRATIVE BUDGET
FOR REGULAR OPERATIONS

TABLE 2
.....

	FY77 =====	FY86 =====	CHANGE			FY87 BUDGET =====	CHANGE OVER FY86	
			AMOUNT =====	% ===	ANNUAL AVE. =====		AMOUNT =====	% ===
Administrative Budget (87\$ '000) a/	219,171	311,284 b/	92,113	42.0%	4.0%	312,700	1,416	0.5%
Total Authorized HL Positions c/	1,650	2,374	724	43.9%	4.2%	2,413	39	1.6%
Total paid HL + Consultants SY	1,764	2,694	930	52.7%	4.8%	2,755	61	2.3%
Cost per HL + Consultant SY	124.2	115.5	-8.7	-7.0%	-0.8%	113.5	-2.0	-1.8%
No. of HL HQ Staff Overseas	108	148	40	37.0%	3.6%	160	12	8.1%
Memorandum Items:								
Commitments (IBRD + IDA) (87\$'000)	8,988	16,547	7,559	84.1%	7.1%	17,833	1,285	7.8%
Number of Active Borrowers d/	92	100	8	8.7%	0.9%	103	3	3.0%
No. of Field Offices	24	39	15	62.5%	5.5%	41	2	5.1%

a/ Excludes Special Programs : IDA TA, CGIAR, Riverblindness, McNamara Fellowships and SPAAR, and Bank overheads.

b/ The FY86 actual budget (in 86\$ M) is \$299.7 million.

c/ Adjusted to reflect the redefinition of assistant level staff as higher level.

d/ An active borrower is defined as a borrower with at least one lending operation in the 3-year lending program.

HL = Higher Level, i.e. level 18 and above.

SY = Staffyear

GROWTH IN OPERATIONS
PROGRAM INPUTS AND ADMINISTRATIVE COSTS
(STAFFYEARS)

TABLE 3

	FY77 =====	FY86 =====	CHANGE			FY87 BUDGET =====	CHANGE OVER FY86	
			AMOUNT =====	% ===	ANNUAL AVE. =====		AMOUNT =====	% ===
TOTAL WORK PROGRAM INPUT a/ =====	2,041	2,833	792	38.8%	3.7%	2,868	35	1.2%
Level of Input by Major Work Program Category:								
LENDING	649	780	131	20.2%	2.1%	801	21	2.7%
SUPERVISION	343	519	176	51.3%	4.7%	512	-7	-1.3%
CESW	254	402	148	58.3%	5.3%	408	6	1.5%
OTHER OUTPUT	244	345	101	41.4%	3.9%	347	2	0.6%
MAA/OVERHEAD	551	787	236	42.8%	4.0%	800	13	1.7%

a/ Includes HL and consultant staffyears, and Cooperative and Reimbursable Programs staffyears.

CESW = Country Economic and Sector Work

MAA = Management and Internal Administration; Overhead includes leave, staff training and holidays.

HL = Higher Level, i.e. level 18 and above

PORTFOLIO MANAGEMENT

TABLE 4

	FY77	FY86	CHANGE			FY87 BUDGET	CHANGE OVER FY86	
			AMOUNT	%	ANNUAL AVE.		AMOUNT	%
	=====	=====	=====	====	=====	=====	=====	====
1. Historical trends								
No. Projects under Supervision	1,233	1,853	620	50.3%	4.6%	1,858	5	0.3%
Avg. SPN per Project (staffweek)	12.5	12.8	0.3	2.4%	0.3%	12.6	-0.2	-1.6%
No. PCR Completed	79	191	112	141.8%	10.5%	229	38	19.9%
PCR Staffyears	24	35	11	45.8%	4.3%	49	14	40.0%
Avg. SW per PCR	15.8	9.5	-6.3	-39.7%	-3.8%	11.1	1.6	16.8%
SUPERVISION INPUT - SYs	343	519	176	51.3%	4.7%	512	-7	-1.3%
=====	===	===	===	=====	=====	===	==	=====
2. Details of Existing Portfolio								
No. Projects under Supervision						1,858		
Value of Portfolio (\$ Billion)						115.4		
Total SY applied to SPN a/						2,800		
Avg SPN input in life of project (SY)						1.5		

a/ Cumulative Staffyears invested in the 1,858 projects currently under supervision.

- SPN = Supervision
- PCR = Project Completion Report
- SW = Staffweek
- SY = Staffyear

OFFICE MEMORANDUM

DATE: December 22, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*,

SUBJECT: GUINEA - Proposed Transport Sector Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated December 15, 1986, with the following comments/qualifications:

- (a) Agreement should be reached on the total transport sector expenditure program, not only the investment program as stated in the EPS. The appraisal mission should give close attention to the adequacy of the provisions for improved maintenance and rehabilitation, and ensure that the size of the program is consistent with sound macro-economic policies;
- (b) The agreed documentation should include a list of public agencies to be rehabilitated, closed and/or privatized. Before Board presentation, significant upfront action should be taken to initiate the closure and privatization process and to place remaining public agencies on a fully commercial basis;
- (c) Also before Board presentation, a specific program (including necessary financing) should be agreed to facilitate the development of private road transport. This program should not be left to a subsequent operation as suggested by the EPS;
- (d) Support for the aviation sub-sector component should be contingent upon substantial progress in restructuring AIR GUINEE, in restoring the airline's profitability and in completing other necessary preparatory steps for privatization; and
- (e) Plans for institutional development and related training should be formulated and appraised before negotiations.

cc: Loan Committee

OFFICE MEMORANDUM

h.w.

DATE: December 22, 1986

TO: Mr. Sune Carlsson, Director, Internal Auditing

FROM: Ernest Stern, SVPOP *ES*

EXTENSION: 78234

SUBJECT: Recent Audit of the Management Information Systems for the Operations Complex (OP-MIS)

1. Thank you for passing on to me, and the managers involved in developing the MIS, your observations and recommendations on improving the management of the system.
2. Your recommendations on system maintenance, on-going development, and administrative management are most welcome. As you know, the MIS group has, since moving out of a troublesome period of intensive and hectic initial development, been moving in a number of the directions you suggest. I believe some significant progress has in fact been made, but more needs to be done before the operation of the MIS is fully responsive to the agenda outlined in your memorandum. I regard the continued improvement of the system along the lines you recommend as an important part of the MIS work program for the coming years.
3. With respect to the institutional issues raised in your memorandum, that go beyond and are outside the control of the MIS project, I have asked the Data Administrators for Operation to table these issues with ITF. As specific actions to deal with these issues are proposed by IRAC and ITF, I will work with other Senior Managers to insure we take the necessary corrective policy and procedural actions.
4. I suggest we arrange a meeting early in the new year to discuss your recommendations.

cc: Messrs. Qureshi, Paijmans

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

December 22, 1986

Dear Mr. Natali,

It was a pleasure to meet with you during your recent trip to Washington. This provided a good opportunity for us to review the progress made towards improved coordination between our institutions and to discuss the problems which remain to be resolved. We look forward to receiving the concrete proposals which Mr. Frisch will send us in this regard.

As you are aware, a Bank mission, headed by Mr. Claude Blanchi, will be visiting Brussels in late February to discuss with the EEC approaches and policies in the agricultural sector. We hope that this meeting will strengthen the collaboration between our institutions in this field. Both the European Community and the World Bank accord a high priority to the development of African agriculture, and I believe that it is essential for us to work together to avoid giving African governments contradictory advice in such a vital and sensitive sector.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. Lorenzo Natali
Vice President
Commission of the European Communities
Rue de la Loi 200
1049 BRUSSELS
Belgium

OFFICE MEMORANDUM

TO: Mr. David Knox, LCNVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY87 Lending Program

December 22, 1986

The December 1 run shows a further decline in the LAC lending program from \$ 4.6 to \$ 4.2 billion. In the last two months, it has declined by almost \$ 700 million. The standby program declined by \$ 2.2 billion in November and by a further \$ 450 million by December 1. Something has got to be wrong in the way the data is being collected.

To have a standby program of only \$ 70 million (essentially only Bahia Blanca port) on December 1, against a lending program of over \$ 4 billion cannot be true, and it is inconsistent with what we budgeted for. Moreover, even a cursory glance at the data shows our most famous standby---Brazil Power II---missing. It is conceivable that the operation may not make it by June 30, but we agreed that we would be ready before then. At a minimum, it would qualify this operation as a standby. There are other standbys mentioned at the last review, which are not listed.

The absence of data on projects with a probability of being processed in FY87 makes it hard for me to have a feel for the Region's and Bank-wide outcome. I would appreciate receiving, in the next few days, an annotated version of lending program Board schedule table, which shows all standbys on which work is going on and the estimated Board date.

cc: Mr. Gregory

December 22, 1986

Mr. Clements

Richard -

Broadly, this seems alright to me, though I agree that there are a few questions. It would be useful for you to send this to FPA, IND and PPD, and organize a discussion early in January.

If we accept the line in para 14, presumably, this should apply to all borrowers, not just to China. The same can be said for para 18.

As to the China aspects, we can deal with those after the general discussion. It should include the question you raise on domestic resource mobilization (i.e. (a) how satisfied are we with the current rate structure, (b) how do we monitor the objectives over the next few years); on exchange risk; on the difference in the maturity structure and who benefits from that. Also, we need to review the blending objective. At the end, the paper shifts from an economic distribution to an organizational one. Whether a port is an independent entity or not is less relevant than the fact that it is a revenue-earning entity.

But, let us try to deal with the principles first-hand, rather than with the specific China issues, in a separate meeting.

Y.S.

OFFICE MEMORANDUM

TO: Mr. Kunihiko Inakage, VPCOF

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Consultant Agreements

December 22, 1986

In preparation for the FY88 budget, PBD has concluded that a significant portion of the use of consultants provided under several agreements with donors cannot, in practice, be distinguished from the use of consultants financed out of the administrative budget. Consequently, they proposed that a portion of the manyears acquired under those agreements ought to be included in the manpower resources considered to be available to implement the programs. There is no readily available data to determine whether the consultants employed are used, in part, interchangeably with other consultants.

While it was finally decided not to proceed on this basis this year, the proposal may surface again and, in any event, a number of Executive Directors are interested in the subject.

We have in the past handled the additionality of donor resources in a flexible way---not by insisting that each donor-financed consultant does a task which is clearly identifiable as additional, but by treating the total contribution as additional to our work program. This, of course, is similar to the way we have handled the Special Facility for Africa. However, this approach may not yield sufficient information to distinguish the purpose for which donor-financed consultants are deployed and the purposes for which ordinary consultant funds are used. I would, therefore, like to have from you a note on how to deal with this problem. It should include information on the specific current use of consultants, how access to the fund is monitored, the system used to ensure that the tied nature of these funds does not affect decisions on consultant selection, how we establish additionality, and how this might be strengthened in the future. Data should be by fiscal year. We should have this material by the end of February.

cc: Mr. Kiermayr

December 22, 1986

Mr. de la Renaudiere

Xavier -

Thank you for the note on debt. Could we, for the eight countries which have Bank debt payments (Zaire, Zambia, Togo, Tanzania, Sudan, Mauritania, Madagascar, Liberia), get the gross and net disbursements for 1987-1989; split the interest payment from the principal, and indicate the debt linked to enclave projects. (By the way, would you check the Togo data. There is a very strange blip in the 1987 Bank service payments).



Ernest Stern

December 22, 1986

Mr. Hopper

David -

I notice on the December 1 lending program data that the elusive Gevra Coal has moved again---from December 16 to March 17. Since this project had several "firm" Board dates in FY86 too, at what point should we cease the pursuit? End of FY87 might be a reasonable cut-off.



Ernest Stern

The World Bank

ERNEST STERN
Senior Vice President
Operations

December 22, 1986

Mr. Wapenhans

Willi -

EGYPT: Italian Assistance

I have no objection to something like this, but, in light of the 1983-90 budget constraints, you will need to consider carefully whether you can take on this task. I would suggest that you also have Patel check out the costs to the regional budget, and how much of the 2% will come your way.

A handwritten signature in cursive script, likely belonging to Ernest Stern, is located at the bottom right of the page.

The World Bank

ERNEST STERN
Senior Vice President
Operations

December 22, 1986

Mr. Wood

Joe -

We are about to initiate an expanded program of studies, mostly in Africa, funded by UNDP for which we will be executing agency. (Total UNDP funding will be about \$ 30 million). I have discussed it in some detail with the two Regions and OPS, who are (or say they are) aware of the management workload they are accepting.

However, before proceeding, I want to be sure that you do not have a similar view on this, as you had on the bilateral agreements. Of course, with the UNDP projects (a) we get paid (11%), and (b) they are specific project agreements. But, there is some overlap---e.g. in entrepreneurial development---and one never knows what budgeteers will think of next.

Would you let me know, please?

A handwritten signature in dark ink, appearing to be 'E. Stern', is located at the bottom right of the page.

OFFICE MEMORANDUM

TO: Mr. Attila Karaosmanoglu, AENVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Indonesia - Trade Policy Loan

December 22, 1986

I have seen D.C. Rao's memo of December 19 on the effective rates of protection. While I agree that we have no alternative but to proceed, I think we should be clear that, for any future such operation, we need better data than the anecdotal and inconclusive sectoral material in para 4.

The GOI, as noted, has committed itself to a process of tariff rationalization to reduce dispersion of rates, but, presumably, also with the objective of reducing the level and dispersion of effective protection. In countries where there is a decision at the outset to a tariff range with a reasonable maximum and minimum, one can reasonably forego detailed calculations of effective rates of protection. Generally, such programs also include commitments for specific further reductions in the range. In Indonesia, we have neither at this stage. Nor do we apparently have a basis for monitoring what happens to levels of protection which is the alternative to the presumed result of agreeing to across-the-board lower ranges. Nor do we seem to have a clear view of the share of domestic production which continues to be highly protected.

There is no doubt that the measures taken by GOI are an important breakthrough. They also, on the face of it, seem far-reaching. But, appearances in this area often are deceptive. Our first loan can be justified as in support of a major policy shift; but, in any subsequent operation, we either will need agreed tariff ranges which are more reasonable than the present ones, with only explicit exceptions to agreed maxima, or better information on the effect on the levels and dispersion of protection.

cc + memo - Rao

December 22, 1986

Mr. Jaycox

Kim -

The December 1 lending program data shows further substantial slippage in the Region. Only 9 projects were processed in the second quarter; only a month ago, when we reviewed the program, the estimate was still 12 and, in October 1, it was 16---almost double the actual. I appreciate the many difficulties facing your borrowers, but I cannot help but feel that we also must have very unrealistic estimates. Their problems did, after all, not change dramatically in the last 60 days.

The number of projects for the third quarter have risen from 15 to 19, but 1/3 of them are scheduled for the last week. We can reasonably expect a fair number of these to be carried into the last quarter. In the fourth quarter, only 3 out of 23 projects are now scheduled before June.

We will need to review the lending program toward the end of January. If present trends continue, and none of the projects can be firmed up for earlier dates, we will have to consider reallocating resources---which we would, obviously, be reluctant to do. But equally, we cannot afford an under-commitment in IDA VII due to allocational rigidities.



Ernest Stern



RESTRICTION NOTICE

Print Form

File Title Ernest Stern Chronological files (Economic Advisory) - Correspondence 60	Barcode Number 1850385
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Document Date 12/22/1986	Document Type Memo
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Correspondents / Participants To Mr. Brian Donnelly
From Ernest Stern

Subject / Title Frona Hall

Exception Number <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D
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Reason for Restriction (a) Personal information relating to personal staff records (performance evaluations, AER, salary, etc.); medical information; CV's; consultant fees, etc.

The items identified above have been restricted 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 Tarsica Morgan	Date Jun 2, 2011
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December 22, 1986

Mr. Vogl

Frank -

I appreciate your sending me the Marsden paper. I reviewed it briefly, but did not take the time to make specific comments.

First, the paper is well-written, though its style is very aggressive.

Second, much of what it says is in line with what the Bank has been saying in its series of reports on Africa and in other fora---albeit in a more nuanced way, in most cases. It does not add much on this score and, assuming that we do not publish everything, I would want to ask who is this restatement for.

Third, while much of what is said is true, and I have no problem with the basic conclusions, there is an important lack of context. African governments did not only want to control the "commanding heights" or distrust indigenous entrepreneurs. Many of the indigenous entrepreneurs were foreigners---Europeans or Asians---and the battle for independence inevitably left many scars. East Asia had no similar experience. Human resource development was extraordinarily low, and indigenous institutions were absent or very poor. Many countries were, and are, not nations; non-homogeneity puts a different perspective on the distribution of growth. Regional and tribal balances become very important. And, in many African societies, the role of the government was seen by the population very differently from the way it is seen in a market system. This view of government is not unique to Africa, but it is very strong there, and I do not think that the role the governments took was seen as inappropriate by most---i.e. they did not impose a foreign ideology so much as superimpose the availability of external capital and a development strategy on a basic indigenous understanding. Noting some of these factors would make the paper less didactic and more credible. (For instance, the simple comparisons with the East Asian economies is considerably overdone. The paper asserts more about the entrepreneurial capacity in Africa than it proves---though it claims the latter).

Fourth, the section on the World Bank is poor in the summary. Much of what it said ought to be done is being done. Maybe not as rapidly as the authors would like, or as completely---but political realities are real too. It is handled better in the text. But, even there the impression left is of little activity. There are several points which I believe are inappropriate, such as the dissemination of World Bank reports or suggestions on who we should invite to participate in missions---these are matters for the governments to decide. We do not, nor should attempt to, run the countries.

While I am not part of the formal clearance process and do not want to interfere in its details, my conclusions are:

- (a) This paper, since it has already been written, could be fixed up suitably for a Bank publication without too much chance. But, those revisions are necessary before we publish it, and it is understandable if Mr. Marsden's managers would not want to devote additional time to the effort.
- (b) If the paper were to go for outside publication, with a disclaimer, we must insist that the sections on the Bank be substantially amended. I see no justification for having our own research staff make policy recommendations to the Bank from the outside. There is ample opportunity to have policy suggestions considered through their managers. But the same caveat applies as for (a)---the Department may not wish to spend more time on it.


Ernest Stern

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. E. Jaycox, Vice President, ESA

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/} I would ask that you review the feasibility of reducing costs and I would like to hear how you propose to cut costs.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86.

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. One of these relates to small countries: although we need to continue to service our smaller members, data suggests that Regional staff expenditures on small countries are a very disproportionate share of resources and some reduction should be explored. There are several other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 369.3 sy, 3 sy above the FY87 level. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

IDA-TA

10. As you are aware, progress with the non-reimbursable technical assistance program has picked up but we have yet to utilize the full amount of resources available. I would like your comments on the status of the program. Please also indicate: (a) the number of positions you are likely to require in FY88 (with countries, if possible) and (b) the likely staffyear utilization.

FY88 Budget Process

11. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

12. There will be four steps in this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
- (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
- (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. Ducker

The World Bank

ERNEST STERN
Senior Vice President
Operations

12/21

Vinod.

I did, after all, take a leave
Volume II. Not only did it
seem much better written
but there is material in
Ch. VI and VII which could
usefully be brought forward,
including the examples. Where
these sections deal with the
same issues as those in
Volume I, there is a good
deal more clarity in the
treatment.

Ernie

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. S. Husain, Vice President, OPS

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/} I would ask that you review the feasibility of reducing costs and I would like to hear how you propose that this might be done.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86, assessed what resources might be required for volume growth and examined

1/ Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

possible areas for redeployment. In PHN, we believe there is potential for a targeted reduction in completion costs, which are currently high. There is also a need for additional resources in PHN if they are to continue to work toward the objective of doubling lending while, at the same time, having sufficient resources to supervise their expanding portfolio. While the PHN allocation will only be finalized at the end of the CAM process, I have tentatively provided for a net addition to PHN's resources of 3 sy.

8. Given the volume growth and the new initiatives that have to be funded within a declining dollar budget, there is no alternative but to reduce policy and research work. I ask that you plan to reduce these two work categories by 12 sy in FY88. Please spell out what you intend to cut out of these programs and the consequences of such decisions. There are clearly other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 455.5 sy, 9 sy below the FY87 level. I anticipate that the 9 sy generated, plus any other that you are able to redeploy from low priority activities, would be utilized for funding the new initiatives that you will need to embark on in FY88. We will agree on the precise resource level for these new initiatives, which should be fully spelt out and quantified in your submission, when we meet in February to finalize your FY88 work program. Requirements for new initiatives, expanded lending, and Sub-Sahara Africa will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each unit's proposed program before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow; the new initiatives that you intend to embark on in FY88; where, in addition to policy and research, you believe you can reduce work on low priority functions; and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

10. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

FY88 Budget Process

11. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Because of the substantial change in work program content and consequent skill mix changes that are implied in the FY88 budget, I ask that, to the extent possible, you freeze existing vacancies until we are able to agree the FY88 work program in February. In this regard, there will be four steps to this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
- (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
- (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that have been allocated for each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. Richardson

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. D. Hopper, Vice President, ASN

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/}I would ask that you review the feasibility of reducing costs and I would like to hear how you propose doing it.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86,

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. In South Asia, we believe there is significant potential for a targeted reduction in completion costs, which are high. There are clearly other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 330.6 sy, the same level as in FY87. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
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- (iii) programs for human resource development and upgrading staff skills, particularly language training.

IDA-TA

10. As you are aware, progress with the non-reimbursable technical assistance program has picked up but we have yet to utilize the full amount of resources available. I would like your comments on the status of the program. Please also indicate: (a) the number of positions you are likely to require in FY88 (with countries, if possible) and (b) the likely staffyear utilization.

FY88 Budget Process

11. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for

these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

12. There will be four steps in this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
- (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
- (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. G. West

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. W. Thalwitz, Vice President, WAN

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/}I would ask that you review the feasibility of reducing costs and I would like to hear how you propose to cut costs.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86,

1/ Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. In Western Africa, we believe there is clearly potential for a targeted reduction in completion costs and droppage (both of which are high). Although we need to continue to service our smaller members, data suggests that Regional staff expenditures on small countries are a very disproportionate share of resources and some reduction should also be explored. There are other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 374.2 sy, 2 sy above the FY87 level. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

IDA-TA

10. As you are aware, progress with the non-reimbursable technical assistance program has picked up but we have yet to utilize the full amount of resources available. I would like your comments on the status of the program. Please also indicate: (a) the number of positions you are likely to require in FY88 (with countries, if possible) and (b) the likely staffyear utilization.

FY88 Budget Process

11. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

12. There will be four steps in this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
- (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
- (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment

cc: Ms. Eschenbach

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. W. Wapenhans, Vice President, EMENA

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/}I would ask that you review the feasibility of reducing costs and I would like to hear how you propose to cut costs.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86,

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. In EMENA, we believe there is considerable potential for a targeted reduction in droppage and in management and administration (which are high relative to most other regions). Although we need to continue to service our smaller members, data suggests that Regional staff expenditures on small countries are a very disproportionate share of resources and some reduction should also be explored. There are clearly other potential areas for redeployment; some of these are spelt out in the Attachment. Based on the savings assumed above, I have tentatively set your resource allocation for regular operations at 341.2 sy, 2 sy below the FY87 level. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

FY88 Budget Process

10. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

11. There will be four steps in this year's budget process:
- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
 - (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
 - (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
 - (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
 - (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. Patel

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. A. Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/}I would ask that you review the feasibility of reducing costs and I would like to hear how you propose to cut costs.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86,

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. In East Asia, we believe there is potential for redeploying some of the savings already realized from your reduced completion costs. There are clearly other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 330.3 sy, the same level as in FY87. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

FY88 Budget Process

10. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

11. There will be four steps in this year's budget process:
- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
 - (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
 - (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
 - (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
 - (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. Calderisi

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Messrs. A. Golan and A. Churchill, Directors, EIS

FROM: Ernest Stern, SVPOP 

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives. ^{1/} I would ask that you review the feasibility of reducing costs and I would like to hear how you propose that this might be done.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86, assessed what resources might be required for volume growth, examined

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

possible areas for redeployment, and taken into account the likely impact of the EIS regionalization. In EIS, we believe there is considerable potential for a targeted reduction in completion costs and droppage which are currently high (especially droppage). Given the volume growth and the new initiatives that have to be funded within a declining dollar budget, there is no alternative but to reduce policy and research work. I ask that you plan to reduce these two work categories by 4 sy in FY88. Please spell out what you intend to cut out of these programs and the consequences of such decisions. There are clearly other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 276.3 sy, 8 sy below the FY87 level. Part of the 8 sy generated, plus any other that you are able to redeploy from low priority activities, might be utilized for funding an expanded program of restructuring and privatization. We will agree on the precise resource level, if any, for this program, which should be fully spelt out and quantified in your submission, when we meet in February to finalize your FY88 work program.

8. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow; the new initiatives that you intend to embark on in FY88; where, in addition to policy and research, you believe you can reduce work on low priority functions; and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training

FY88 Budget Process

10. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Because of the pending reorganization and the substantial reduction in your policy and research work, I ask that, to the extent possible, you freeze existing vacancies until we are able to ratify the FY88 work program in February. In this regard, there will be four steps to this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
- (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
- (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that have been allocated for each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS. Given the likely regionalization of EIS, there may be a tendency for the regions to try to overprogram EIS resources. EIS management will need to ensure that this does not happen and that only tasks that can reasonably be completed should be included in the work program. These tasks should be at agreed unit costs.

Attachment
cc: Mr. Weissman

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. Xavier de la Renaudiere, Director, SOA

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture,

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives.

7. I have tentatively set your resource allocation at 9 sy, the same level as in FY87. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements.

8. If you see the need for resources beyond the level provided, for example for Africa-wide analysis and policy work, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each unit's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

FY88 Budget Process

9. Further details of the FY88 budget process are set out in the attachment. There will be three steps in this year's budget process:

- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
- (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget; and
- (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;

Attachment
cc: Ms. Hall

OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. D. Knox, Vice President, LAC

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: FY88 Work Program and Budget Guidelines

Introduction

1. The overriding message which emerged from the 1986 Annual Meetings is that the Bank should prepare itself to play an even stronger leadership role in the adjustment and development process of member countries. We have been urged to further expand our lending and advisory assistance, particularly to heavily indebted middle-income countries, and to play even more of a leadership role in mobilizing support for comprehensive adjustment programs in these and low-income countries, especially in Sub-Saharan Africa. This will entail deepening and strengthening programs of structural change for sustainable growth. We have made a sound start in both these areas. Yet there is no doubt about the need for us to expand our efforts in formulating growth oriented adjustment programs, to make our contribution more focussed and systematic, and to further enhance our catalytic role with other sources of finance. This is important both in Sub-Saharan Africa, where there is a need for better focussed aid coordination and technical assistance and intensified collaboration with other sources of concessional assistance, and in highly-indebted countries since net lending to heavily indebted countries by commercial banks has fallen short of earlier expectations. Moreover, there is a widely acknowledged need to encourage capital inflows that do not create additional indebtedness (e.g., equity investments). This would suggest some expansion in our efforts to assist borrowers in mobilizing commercial bank support for their adjustment strategies, as well as intensification of analytic and advisory work that addresses reform of the financial sector and other rules and regulations that affect the attractiveness of private investment, both domestic and foreign.

2. Simultaneously, we need to reaffirm our commitment to sustained development in other countries, not in crisis or in Sub-Saharan Africa. That is, we need to plan for the continued expansion of our regular financial and technical support to members, in both low- and middle-income countries, to accelerate sustainable growth and development in what will still be a difficult and volatile world economic environment.

3. Finally, we need to embark or expand on a number of new initiatives that have emerged in the course of the past year or so. In this context, we need to give greater consideration to environmental and resource management issues to ensure that the resource base is conserved and utilized in a manner that will also benefit further generations. We need to implement programs for integrating women's contributions into overall development strategies, taking particular account of their roles in agriculture.

education, and population, health and nutrition. Other activities that need to be expanded or better focussed are: our work on public enterprise management including restructuring and privatization; our supervision in institutionally weak countries; our support for debt management; our Africa-wide analysis and policy work; our donor coordination efforts at the agency level; and our field office presence.

4. Unfortunately, the additional resources for the above activities cannot be met through an expansion of our budget. Rather they will have to be generated by setting priorities and moving resources to areas of greater productivity. This means abandoning some work; it means being more selective and deliberate in defining the need for and scope of specific tasks; and it means a realistic assessment of the volume and skill mix of staff required to do the task. Resources to be used for the FY88 priorities will thus largely have to come through redeployment. They will also have to come by seeking ways to improve the Bank's management and administrative efficiency thereby reducing unit costs.

5. In preparing the FY88 budget and work programs, we will need your support, and that of your managers, to prepare work programs within the resources available which reflect our relative priorities and which will deliver the most relevant possible services to our members in the most efficient way possible. Clearly, given our budget constraints we cannot do all that needs to be done and will have to put off desirable and useful work that is of a lower priority. This is always a difficult task.

FY88 Unit Work Program

6. Operations will have a dollar budget in FY88 that is slightly lower, in real terms, than our FY87 budget. Our capacity to fund new initiatives exists, therefore, primarily in staffyear terms without matching dollars. If we are to implement our new initiatives -- and I certainly believe we can -- this can only be done through lowering unit costs and moving resources to areas of higher productivity and priority. The FY88 budget, which calls for an increase in our total work program, is premised on the assumption that we can reduce unit costs (that is the staffyear: dollar conversion rate) by about 1.5%, equivalent to a reduction of some 3% in our non-salary discretionary costs. Only to the extent that we can achieve these savings will we have resources for the new initiatives.^{1/} I would ask that you review the feasibility of reducing costs and I would like to hear how you propose to cut costs.

7. To allocate Operations share of the FY88 budget between Vice Presidential units, we have taken a look at actual performance in FY86.

^{1/} Since your discretionary budget is largely made up of three items (salaries, consultant fees, and travel) and we are expected to maintain, and indeed expand our manpower use, unit costs can effectively only be reduced by careful monitoring and control of consultant fees and travel. To this end, you may wish to set up internal systems to manage these two major components of your budget more closely than has been done in the past.

assessed what resources you might require for volume growth and new initiatives, and examined possible areas for redeployment. In LAC, we believe there is potential for redeploying some of the savings already realized from your reduced completion costs. There is also scope for a targeted reduction in droppage which has been high. Although we need to continue to service our smaller members, data suggests that Regional staff expenditures on small countries are a very disproportionate share of resources and some reduction should be explored. There are other potential areas for redeployment; some of these are spelt out in the Attachment. Overall, I have tentatively set your resource allocation for regular operations at 383.2 sy, 6 sy above the FY87 level. In submitting your operating plans for FY88, please make clear the basic assumptions, directions and objectives you are setting for FY88 and what priorities you propose to set. I would also like your submission to indicate specifically (and quantitatively): the existing priority activities that you anticipate will grow, the new initiatives that you intend to embark on in FY88, where you believe you can reduce work on low priority functions, and areas targeted for efficiency improvements. Your submission should spell out the level of effort that might be required for growth and the level of effort that might be redeployed by making these changes; details are in the Attachment.

8. If you see the need for resources beyond the level provided, that should also be spelt out in sufficient detail to understand the use planned for these resources and the objectives to be achieved. Additional requirements to expand lending, further the Sub-Saharan Africa program, and meet the new initiatives mentioned above will be given priority consideration but will nevertheless have to compete with other important requirements. I will want to look, case by case, at each Region's proposed program increases before allocating any additional resources that I might have at that time to ensure that we can accomplish the most with what is available.

9. I would also like you to set out in your covering memorandum the monitorable objectives you plan to set for FY88 with respect to program content, delivery, and cost. In particular, I would like you to specify your quantitative objectives with respect to:

- (i) the quarterly Board delivery of the FY88 lending program;
- (ii) the quarterly program of appraisal departures for the FY89 Operations program; and
- (iii) programs for human resource development and upgrading staff skills, particularly language training.

FY88 Budget Process

10. Further details of the FY88 budget process are set out in the attachment, together with guidelines for formulating your aggregate work program. Please note the sector work and projects to be executed by EIS and PHN are part of the Region's work program. At present, the resources for these tasks are budgeted in the executing departments. These tasks will be detailed in your work program when the CAM process has been completed in about May/June of next year. At that time, when we will also know the implications of any organizational changes, we will re-examine the Region's and the COPD's resource allocations to assess the need for budget transfers.

11. There will be four steps in this year's budget process:
- (i) By January 20, 1987: Submission of Major Work Program Aggregates. You should review, in aggregate, the major elements of your planned program of work for FY88 and the planning assumptions. Your covering memorandum, which should be short and to the point, should address the specific issues discussed above and any other issues you would like to discuss with me in early February (see below). In preparing your budget submission, your Program Coordinator should consult closely with OMSB and, of course, I will be available to discuss with you any special problems that may arise in the formulation of the work program.
 - (ii) February 9-13, 1987: Review of Unit Work Programs. During this week, I will meet with you to review your proposed work program, and any issues raised in your covering memorandum. Following this meeting, I will finalize the resource availability for your FY88 work program and issue your dollar budget;
 - (iii) February 25: Resubmission of Budget Aggregates. Based on any adjustments to your work program, you should submit a final work program and dollar budget by line item;
 - (iv) March. OMSB will issue formal standard CAM operating procedures for FY88-90; and
 - (v) May: CAM Budgets. Your Departments and Divisions should formulate task specific work programs for FY88-90 based on the aggregate planning assumptions and the resources that you allocate to each country program. The task specific work programs should be completed by end May, and loaded into the Task Budgeting module of the MIS.

Attachment
cc: Mr. Gregory

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 19, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES.*

SUBJECT: CHINA - Proposed Fertilizer Rationalization Project

The above proposal is approved based on the parameters indicated in the revised Executive Project Summary dated December 9, 1986, with the following comments/qualifications:

- (a) The EPS indicates that the proposed institutional development component comprises mainly a study, despite the fact that this will be the Bank's second project in the sector. It is not clear how the component as presently designed will have the envisaged "strong demonstration effect" on other sectors. The scope for specific action to strengthen institutional arrangements at the project entities (including O & M capability) should be explored during appraisal. If studies are necessary, firm schedules should be established for their execution and follow-up;
- (b) It is not clear why it should be necessary to seek assurances from the Government and the companies "to take measures which, under efficient plant operations, would enable the companies to at least meet all operating expenses from revenues". If the entire output of the companies is to be sold at market-based prices, what would such assurances mean?
- (c) In addition to an agreement on free market pricing for project companies, an understanding should be reached on the time frame for extension of price liberalization throughout the fertilizer sector;
- (d) An onlending rate in line with the Bank's lending rate would be acceptable, provided the project companies carry the foreign exchange risk on the Bank loan; and
- (e) It is assumed that the investment program for the fertilizer sector as well as for the project companies will be reviewed during appraisal and agreement reached on any necessary adjustments.

cc: Loan Committee

MEMORANDUM FOR EXECUTIVE DIRECTORS

Subject: EL SALVADOR: Earthquake Reconstruction Effort

1. In response to a question at a Board meeting in November I had promised to provide additional information on the earthquake damage in El Salvador and the reconstruction work in which the Bank would participate.
2. The attached note brings you up to date.

Ernest Stern
Senior Vice President
Operations

December 19, 1986

Mr. Inakage

Thank you for your note.

I have no objection to continuing to explore both approaches. But in regard to any Trust arrangement we must be very clear that no arrangement which involves the Bank in carrying interest risk, or capital risk during a normal commercial amortization period, will be acceptable.

cc: Mr. Vibert

December 19, 1986

Dear Jack:

I enjoyed our breakfast the other day. Enclosed is the paper on debt conversions in Chile which I think you will find of interest. Its a growing business.

Sincerely,

Attachment

Mr. J. Gilbert
Vice Chairman
Riggs National Bank
800 17th Street N.W.,
Washington, D.C. 20006

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 18, 1986

TO: Mr. Conable

FROM: Ernest Stern *ES.*

SUBJECT: Financing Health Services in Developing Countries

Attached, for your review and approval, is a paper on Health Financing, which is scheduled to be considered by the Board on January 27.

The paper was considered by the Operations Policy Committee on December 10, in which all of the units of the Bank are represented. There were extensive comments, and I am satisfied that these comments have been adequately taken into account in the present version.

Although the recommendations in the paper will be the subject of some debate, they are sound in principle and we are working with a number of countries along these lines. The summary is in the first 13 pages and the four policy reforms are discussed beginning on page 3.

Since all the relevant units of the Bank are represented on the Operations Policy Committee, I do not recommend that you convene a meeting of senior staff to discuss the paper further. Should you wish additional information, I will be glad to arrange for a meeting with the relevant staff.

I would appreciate your approval, and any comments, by Monday, December 29, so that we can distribute the paper to the Board with the required lead time.

Approved

Disapproved: See comments

OFFICE MEMORANDUM

TO: Mr. David Knox, LCNVP

December 18, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Mexico - Agricultural Extension Project

I am returning the proposal for the Agricultural Extension Project because, despite reading the various attachments, I could not get a clear idea of what this project expects to achieve, or how implementation is supposed to proceed.

We have in the Bank a long history of trying to improve extension services in a number of countries, and I am sure your staff is familiar with these experiences which have mostly been in Asia and Africa. In view of the successes achieved with this approach, I am naturally concerned that I see no reflection of it in the proposed project. Moreover, the discussion on where various things had to be tested gives an unclear view of relative priorities, and these have to be read against unrealities of statements by Mexican agencies about what it takes to train extension staff and how quickly this can be done. Our experience indicates that it is important to have clear responsibilities. Agricultural extension agents should not be responsible for credit collection nor for social activities. Training needs to be carefully defined and done by those with practical field experience. Training of subject matter specialist is as important as training extension workers, since often the training subject matter which specialists provide is too theoretical and unrelated to the practical problems faced by the extension workers. Neither of these two aspects is described in the project proposal.

Other issues have been raised regarding our financing incremental recurrent expenditures, which seem to include salaries of present staff, and the length of time required to test strategies for the streamlining of the Secretariat of Agriculture and to improve the impact of its services in a cost-effective manner. But, before commenting on these specific details, I would appreciate a clear statement of what this project is all about and why the approaches which have proved successful elsewhere are not thought to be applicable in Mexico.

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MR. MICHEL CAMDESSU, GOVERNOR, BANQUE DE FRANCE, PARIS, FRANCE.
MY MOST SINCERE CONGRATULATIONS. I LOOK FORWARD TO HAVING YOU IN
WASHINGTON AND TO WORKING CLOSELY WITH YOU. BEST REGARDS,
ERNEST STERN

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CLASS OF SERVICE: **TELEX** TELEX NO.: **220932F** DATE: **Dec 19, 1986**

SUBJECT: DRAFTED BY: **EStern:n** EXTENSION: **72004**

CLEARANCES AND COPY DISTRIBUTION: AUTHORIZED BY (Name and Signature): **ERNEST STERN**

DEPARTMENT: **SVPOP**

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December 18, 1986

Mrs. Mercedes Rubio, Executive Director

Ernest Stern

72004

MEXICO - 1986/87 Commercial Bank Package - Spanish Banks

Attached please find a status report of certain banks in Spain, which we received from the chairman bank of the Advisory Committee for Mexico, with a request for help. Would you be kind enough, during your upcoming visit to Spain, to discuss with the authorities what can be done to help in this matter.

Attachment

SPAIN

- A. SEVERAL LARGE SPANISH BANKS WHICH HAVE COMMITTED ARE INDICATING THEIR COMMITMENTS INCLUDE ALL RESPECTIVE AFFILIATES RESULTING IN RATHER LARGE SHORTFALLS. THESE BANKS ARE:
- BANCO DE VIZCAYA (USDLR 23.14 MM) - COMMITTED USDLR 7.74 MM, COMMITMENT SHOULD INCLUDE ADDITIONAL AMOUNTS FOR: BANCA CATALANA (6.057 MM), BANCA MARCH (.571 MM), BANCO DE PROGRESSO (.563 MM), BANCO INDUSTRIAL DE CATALUNA (.645 MM).
 - BANCO POPULAR ESPAÑOL - (USDLR 8.281) COMMITTED USDLR 7.095 MM. COMMITMENT SHOULD INCLUDE BANCO DE ANDALUCIA (.516 MM), BANCO DE CASTILLA (.285 MM), BANCO DE CREDITO BALEAR (.129 MM) AND BANCO DE GALICIA (.258 MM).
 - BANCO HISPANO AMERICANO - (USDLR 26.706 MM) COMMITTED USDLR 22.316 MM. COMMITMENT SHOULD INCLUDE BANCO HISPANO INDUSTRIAL (.258 MM), AND BANCO URQUIJO UNION (USDLR 10.9 MM).
- B. OTHERS

- BANCO CENTRAL CORP. - (USDLR 2.8 MM) INDICATES ASSETS TRANSFERRED TO SUBSIDIARY, UNWILLING TO FOLLOW-UP, ALSO OWNS BANCO INTERNACIONAL DE COMERCIO (.819 MM).

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BOOK OF 3 MESSAGES

1. TELEX 115673

GOVERNOR

RBI RBI

NEW DELHI, INDIA

2. TELEX 66175

BIMAL JALAN

SECRETARY OF BANKING AND CHIEF ECONOMIC ADVISOR

MOF

NEW DELHI, INDIA

3. INTBAFRAD

WAIDE

NEW DELHI, INDIA

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AUTHORIZED BY (Name and Signature):

DEPARTMENT:

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3 **MR. MALHOTRA, GOVERNOR**

4 **RESERVE BANK OF INDIA, NEW DELHI, INDIA**

5 **VERY MUCH APPRECIATED YOUR ASSISTANCE EARLIER IN HAVING STATE BANK**

6 **OF INDIA AND BANK OF INDIA DECIDE TO PARTICIPATE IN MEXICOS**

7 **RESTRUCTURING AND NEW MONEY FACILITY. HOWEVER, DESPITE CONFIRMATION**

8 **FROM BANK OF INDIA THAT THEY WOULD PARTICIPATE TO DATE CITIBANK**

9 **HAS NOT RECEIVED CONFIRMATION. CONTACT BY CITIBANK WITH NEW YORK**

10 **OFFICE IN LAST FEW DAYS WAS INCONCLUSIVE. AS YOU WILL UNDERSTAND**

11 **IT IS NOW A MATTER OF CONSIDERABLE URGENCY THAT PACKAGE BE**

12 **COMPLETED. WOULD BE GRATEFUL THEREFORE IF YOU COULD CHECK WHAT IS**

13 **HOLDING UP FORMAL NOTIFICATION TO CITIBANK DESPITE AGREEMENT IN**

14 **PRINCIPLE SOME TIME AGO.**

15 **BEST WISHES FOR 1987. STERN, WORLD BANK.**

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CLASS OF SERVICE: TELEX	TELEX NO.: 115673	DATE: 12/18/86
SUBJECT:	DRAFTED BY: EStern:dpw	EXTENSION:
CLEARANCES AND COPY DISTRIBUTION: cc: Mr. Rao Sahib	AUTHORIZED BY (Name and Signature): D. Weatherford	
	DEPARTMENT: SVPOP	
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OFFICE MEMORANDUM

ES 10/12

DATE: December 17, 1986

TO: Mr. Wilfried Thalwitz, Vice President, WAN

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Sierra Leone: IDA-TA Program - Extension of Mr. Alibaruho's Contract

I approve the extension of Mr. Alibaruho's contract for one year. Please ask your staff to submit a budget for the one-year extension broken down between FY87 and FY88 expenses.

cc: Messrs. Ruddy, Koch-Weser, Alisbah
Ms. Eschenbach

The World Bank

ERNEST STERN
Senior Vice President
Operations

December 17, 1986

Mr. Conable

Barber -

Thought you might be interested in
having a look at what I said at
the DAC High-Level Meeting.

A handwritten signature in dark ink, appearing to be 'ES', is located below the typed text.

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

December 16, 1986

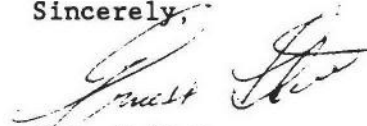
Dear Mr. Koc:

I would like to take this opportunity of thanking you for the kind hospitality that you extended to me and my associates last week. It was a pleasure to meet with you and to have the opportunity to exchange views on matters of mutual interest.

Turkey's economic reform efforts have yielded many promising results and clearly, continued intensive efforts, both in the public and private sector are required to achieve sustainable growth over the medium and longer term.

While this will not be easy, I share your view that it is attainable.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. Rahmi M. Koc
Chairman
Koc Holdings
Findikli, Istanbul
Turkey

bc: Mr. Wapenhans

JChaffey:jd:ml

The World Bank

Washington, D.C. 20433
U.S.A.

December 16, 1986

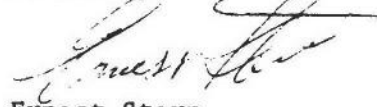
Excellency:

It was a great pleasure to meet with you again and to have the opportunity of exchanging views on current economic problems. I appreciated the assurances you gave that every effort would be made in 1987 to limit the growth of public investment, control foreign borrowing by the State Economic Enterprises and the municipalities and reestablish Turkey's external and internal balances on a sustainable basis.

May I express my appreciation for the many courtesies that were extended to me and my colleagues by your associates.

I enclose a copy of the letter I have sent to the Prime Minister, His Excellency Turgut Ozal.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Attachment

His Excellency
Kaya Erdem
Deputy Prime Minister
Prime Ministry
Ankara, Turkey

bc: Mr. Wapenhans

JChaffey:jd:ml

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

December 16, 1986

Dear Mr. Yildirim:

It was a great pleasure to meet with you in Ankara last week and to hear your views on the problems currently facing Turkey. We are pleased to have been associated with the adjustment program in Turkey these past six years, and hope that the problems which arose in 1986 will be brought under control so that continued progress, in a stable framework, will continue.

I am enclosing a copy of a paper on Debt Conversion in Chile, to which I referred during our meeting. Chile's efforts in restructuring its debt profile have yielded modest but promising results so far.

I also enclose a copy of a letter which I have sent to the Prime Minister, His Excellency Turgut Ozal.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Attachments

Mr. Zekeriya Yildirim
Acting Governor
Central Bank of Turkey
Ataturk Bulvari No. 40
Ankara, Turkey

bc: Mr. Wapenhans
JChaffey:jd:ml

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

December 16, 1986

His Excellency
Turgut Ozal
Prime Minister of the Republic of Turkey
Prime Ministry
Ankara, Turkey

Dear Mr. Prime Minister:

It was a great pleasure to meet with you again and to review the impressive progress Turkey has made under your guidance. I was most interested to hear your personal views on the economic difficulties Turkey faced in 1986, and of the measures taken, and planned, to assure continued progress in a stable environment.

We clearly agree on the importance of aiming for a more modest pace of growth, of improving the balance of payments in 1987 and of reducing the pace of public investment, in order to lower the volume and cost of Government borrowing. This will help reduce inflationary pressures, lower the excessively high rates of interest and implement the objective of placing greater reliance on the private sector for growth. In regard to the interest rates, I would hope the Government could consider the elimination of the various transaction taxes now that a value added tax is in place. This could contribute to a 3-4 percentage point reduction in the spread. The rapid expansion of investment by the municipalities in 1986 is of serious concern, though I understand that this represents a one-time transfer of investment responsibilities and resources and no equivalent expansion is foreseen for 1987.

I accept that the Special Funds have been a pragmatic response to special needs. But in light of historical experience I remain concerned that, in the longer term, these Funds pose a considerable danger of becoming institutionalized pressure groups, which will not only introduce excessive rigidity into both expenditure and revenue patterns but also will lead to renewed pressures for public sector investments. The effective monitoring and control of a range of Special Funds inevitably places a considerable burden on you and your colleagues, which will prove costly and difficult to sustain. Thus, I would urge you, as a first important step, to assure that no additional Funds are established, that the growth of existing Funds remains limited to their present programs and, most important, to initiate their re-incorporation into the budgetary framework. Aside from the long-term institutional danger which these Funds pose, the diverse taxes which have been imposed to fund them should be a matter for early review. For some, the taxes on trade are at odds with your objective to liberalize the trade regime and to eliminate biases against exports; in others, the taxes are being offset by subsidies from the budget which creates undesirable distortions.

I share your view that the industrial sector requires substantial restructuring to enhance productivity and establish a sustainable financial profile. The Bank stands ready to assist you in this important area.

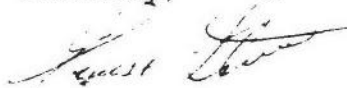
The World Bank is very pleased to have been associated with Turkey's economic restructuring efforts these past six years. Much has been accomplished, both in restoring financial stability and in restructuring the economy to make it more open to domestic and external competition, to increase efficiency and enhance its export orientation. In the process of supporting this structural adjustment, Turkey has become the fifth largest borrower of the World Bank, with an annual lending program of close to \$1 billion. In addition, as you know, we have been able to help mobilize substantial loans from commercial banks through our cofinancing program. Our ability to maintain this level of support depends on the continued effective implementation of the adjustment program, in a stable framework, as you outlined to me. We shall look for indications early in 1987 that the measures already taken had the expected impact in the last quarter of 1986 and, if not, we shall look forward to discussing any additional steps that may be necessary to assure that Turkey's internal and external balances are put on a sustainable basis.

May I take this opportunity of also expressing my sincere gratitude to your colleague, His Excellency Kaya Erdem, the Deputy Prime Minister, and to your other Ministerial and senior associates, with whom I was able to meet. I was greatly impressed by the quality of their analyses, the depth of their appreciation of the issues confronting Turkey, and their recognition of the need to address them both vigorously and expeditiously.

I look forward to continued sustained improvement in Turkey's medium-term economic prospects.

With my very best wishes for 1987, I remain,

Sincerely,



Ernest Stern
Senior Vice President
Operations

bc: Mr. Wapenhans
JChaffey:jd:ml

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

December 16, 1986

Lic. Gustavo Petricioli
Secretary of Finance and Public Credit
Secretariat of Finance and Public Credit
Palacio Nacional, 3er Piso
Mexico, D.F., Mexico

Dear Gustavo:

I am once again reporting to you on the status of projects in our lending program for calendar years 1986-88, and am attaching a table to reflect the changes in processing schedules that have been made since last month.

Export Development Project II

We have received the Government's policy statement on export development. I understand that all other conditions for Board presentation have also been met. Board presentation has now been scheduled for January 13, 1987.

Ninth Agricultural Credit

During negotiations, which started on November 17, we failed to reach agreement on two major issues: the achievement of financial self-sustainability of FIRA and FICART within a reasonable timeframe, say five years, and terms of reference for an agricultural financial subsector review. As you know, FIRA and FICART have both suffered severe decapitalization, particularly in 1982 and 1983 when inflation soared while subloans were made at fixed interest rates that were highly negative in real terms. The position has improved since 1984, mainly as a result of increased returns from higher and variable interest rates introduced by Government under the General Interest Rate Agreement (GIRA). But, as you know, interest rates are not the only vehicle for channeling financial subsidies to farmers. One of the objectives of GIRA was to implement a national system of accounting, budgeting, and control of all financial subsidies including, for example, excessive arrearages and Government sponsored credit insurance schemes. Under such a system, it will be possible to measure and control for target rates of cost and equity recovery on the part of the financial agencies responsible for the various agricultural credit programs supported by the Bank. The objective is to improve the capacity of these agencies to contribute to their own maintenance and expansion. We hope to reach agreement soon with the Government on a specific target for achieving self-sustainability and on the terms of reference for a study that could help to define a monitorable action program.

We are pleased to learn that the 50% reduction of subsidies for low income farmers will be achieved through an increase of PBI interest rates to 90% of CPP beginning January 1987.

Fertilizer Restructuring Project

Since my last letter, little progress has been made in resolving some of the remaining key issues, especially future pricing policy and import liberalization for fertilizers and the PEMEX/FERTIMEX relationship for ammonia/urea production. On some other important issues, agreement in principle has been reached. Perhaps the most important outstanding issue is the one on pricing. We feel that the adoption of a pricing formula linking domestic to prevailing international price levels - even if the actual production costs of FERTIMEX should be higher - is essential to achieve the objectives of this important restructuring project. I agreed with Secretary del Mazo at a meeting in Washington on November 19 that we would continue our preparatory work while Government is considering options for pricing policy reform and institutional adjustments. A follow-up meeting was held in Mexico City on December 3 between Bank staff and i.a. Undersecretaries Suarez Davila (SHCP), Paramo (SPP), Arroyo (SEMIP) and Mr. Davila (FERTIMEX). We understand that decisions regarding remaining key policy and institutional issues will be made shortly and we hope that those decisions will permit us to proceed with the appraisal of a first stage fertilizer sector restructuring project.

A second stage fertilizer project could focus on the investment requirements for the proposed two new urea plants. Unfortunately, our preparatory work on this has been handicapped by a lack of full access to all relevant information regarding the production by PEMEX and cost of ammonia. Full cooperation by PEMEX will be essential for the appraisal by the Bank of a fertilizer investment project.

Industrial Restructuring Project and Industrial Sector Loan

An identification/preparation mission in November focussed in particular on the critical need to develop a coordinated approach to the physical and financial restructuring needs arising out of the trade liberalization process. The restructuring needs of three major industries dominated by private sector participation - textiles, automotive parts, agroprocessing - have been studied in detail with the help of Mexican and foreign consultants. Their reports are being reviewed and discussed by Government and industry representatives with the active participation of Mexican development and commercial banks as well as World Bank staff. Other industries will be similarly analyzed and jointly reviewed next year. These reviews are proving to be very helpful in the formulation of an Industrial Restructuring Project aimed at meeting real industry needs, including financial restructuring. The project would also aim at assisting the Government in redressing specific regulatory and import or export restrictions that inhibit or retard meaningful restructuring at the firm level. We hope to be able to preappraise this project early next year.

We are simultaneously working, jointly with Government officials, on the formulation of a quick disbursing Industrial Sector Loan that would address further domestic regulatory and policy adjustments needed to complement the external trade liberalization process. We are hopeful that a project of this nature will be ready for appraisal during 1987.

Steel Restructuring Project

The draft sector report is being discussed in Mexico this week. We hope this will lead to a consensus on the policy and institutional issues that need to be addressed, a project definition suitable for Bank financing, and appraisal in early 1987. Because of the inevitable long term nature of a meaningful steel sector restructuring program, we would be willing to consider the feasibility of a multi-stage project approach, separating sector policy and institutional objectives from longer term investment requirements.

Power Sector Loan

The exploratory mission which visited Mexico in October made significant progress in its discussions with CFE. We are now working towards the preparation of a project to be ready for preappraisal early next year, pending agreement on a program of real tariff increases, a realistic least cost investment program, certain institutional development measures and acceptable procurement arrangements.

In the course of our efforts to place this project in a suitable energy sector context, it has become evident to us that there are a number of important broader energy sector issues that appear to require urgent study by the Government. Such issues include for example the need for conservation, overall demand management, the pricing of fuel oil and the future role of natural gas and coal as energy sources. We propose to discuss these issues with the relevant authorities and stress the need for a thorough evaluation of long term energy sector strategy options.

Agricultural Sector Loan

A preparatory mission which visited Mexico in November had constructive discussions with key officials in SARH and other relevant Government agencies. Before we can firmly schedule appraisal, we need to discuss the Government's overall medium-term development strategy for the sector combined with an approximate timetable for the principal policy actions that are being planned, for example with regard to the further reduction of food subsidies to consumers and of input subsidies to farmers, the improved targetting of remaining subsidies, the removal of restrictions on domestic and foreign agricultural trade (including price controls), rationalization of the sugar industry, the organization of SARH and the public sector investment and expenditure program for agriculture.

Trade Policy Loans (TPL) I and II

As you know, TPL I became effective on November 18 and the first tranche of US\$300.0 million has already been disbursed. All conditions for the second tranche were met on November 25, and the Bank has authorized the release of the second tranche in the amount of US\$189.0 million. The remaining US\$11.0 million in the loan account will be available to finance the

establishment of a modernized trade information and antidumping system as well as economic and technical studies to support further trade policy rationalization and regulatory adjustments, as provided in the loan agreement. We hope to agree on the terms of reference for these study components by the time of the Country Programming Implementation Review meeting in January.

Continued successful implementation of Mexico's crucially important program to gradually open up the economy should permit us to process TPL II, as scheduled, for Board presentation in September 1987. Preparation of this follow-up loan has already started and appraisal is scheduled for March 1987. In this connection, I would like to bring to your attention an issue that will need to be addressed under TPL II. We note that the recently announced fiscal program for 1987 includes a special 5 percent uniform tax on imports, in addition to the basic import tariff. We would support a minimum tariff of 5 or even 10 percent, to reduce the overall dispersion of tariffs and effective protection and to generate increased revenue. But such a measure will need to be harmonized with the 1986-88 tariff calendar that was agreed under TPL I, so as to maintain the same overall maximum tariff ceilings.

Housing Finance Project II

In accordance with a recent request from Secretary Camacho we are trying to accelerate the processing schedule of this project. Unfortunately, despite general agreements on overall project objectives, our preappraisal mission which visited Mexico in November was unable to secure suitable understandings on the cost recovery issue which is fundamental to this project. Under the FOVI housing program, which would be supported under the proposed second Housing Finance Project, it should be possible to achieve full cost recovery within a relatively short timeframe. We trust that a satisfactory solution for this issue can be found soon so that appraisal of the second Housing Finance Project can be firmly scheduled.

Other Projects

As you know, there also are other, relatively smaller investment projects under preparation. Most of them are related to one or more of the larger policy oriented loans. They are included in the attached table where reasons for processing schedule changes, if any, are indicated in summary form.

Disbursements

Disbursements on Bank loans to Mexico for October and November totalled US\$86.78 million and US\$350.23 million respectively. The November figure includes US\$300 million for the first tranche of TPL I. The disbursement total for projects approved through June 30, 1986, stands at US\$552 million as of the end of November compared to our original target of US\$800 million for the year as a whole for this group of projects. It is now very unlikely that this original target will be achieved. Including TPL I disbursements, we expect that 1986 year total disbursements from all

December 16, 1986

effective loan accounts will be of the order of US\$1.1 billion, about US\$200 million below the aggregate target level that I discussed with you in August. The shortfall is mainly due to the slow processing of withdrawal applications by Government agencies, in particular with respect to the Earthquake Reconstruction loan.

Country Programming Implementation Review

As was recently agreed with your officials, we will hold a joint Country Programming Implementation Review (CPIR) meeting on January 26 and 27, 1987 in Mexico. I propose that the meeting focus on the major policy issues to be addressed under the policy and sector loans currently under preparation. We will submit a discussion paper to you shortly to explain our perspective on the objectives of the various proposed projects concerned, including TPL II, the Agricultural Sector Loan, the Industrial Restructuring Project, the Industrial Sector Loan, the Fertilizer Project, the Steel Project, the Power Project and the second Housing Finance Project. The role of other, relatively smaller projects in the overall lending program, will be reviewed as well. In addition we would like to review major project implementation problems which continue to hinder the effective execution of several of our ongoing projects.

The main objective of the discussion paper to which I referred would be to promote a common understanding of the policy objectives and inter-relationships between the various project proposals. Mr. Rainer Steckhan will lead the Bank's team and the delegation will also include Mr. Picciotto, who succeeded Mr. van der Meer as Regional Projects Director a few months ago, Mr. Bottelier, and other key staff working on the Mexico program.

Future Periodic Reviews of Lending Program

I propose that we henceforward keep you advised of the progress and major issues that need to be resolved on a quarterly basis. Mr. Knox or I will be in touch with you more frequently if required by the circumstances.

Sincerely,

(Signed) Ernest Stern

Ernest Stern
Senior Vice President
Operations

Attachment

cc: Lic. Francisco Suarez Davila, Undersecretary, SHCP
Lic. Jose Angel Gurria, Director General for Public Credit, SHCP
Lic. Jose Luis Flores, Director for International Financial
Organizations, SHCP
Lic. Timoteo Harris, EDS

Cleared with and cc: Messrs. Steckhan, LC1DR
Picciotto/Jennings, LCPDR

cc: Messrs. Knox, LCNVP
Golan, INDDR
Wessels/Aguirre-Sacasa/Finzi, LCPDR
Landau, LC1DR
Thornley/Knudsen, LCPAC
Schultz/Page/von Loehneysen/Saadat/Prasad, LCPI2
Alber-Glanstaetten, LCPI2
Raghavan, INDD2
Rowat, INDD3
Sood/Lieberman, INDRE
R. Stern, INDD4
Thint, LCPUR
Moscote, LCPEN

LC1MX staff

MEXICO

PROCESSING SCHEDULE FOR PROPOSED OPERATIONS CY1986-88

	Previous Schedule				Revised Schedule				Reason for Important Changes in Major Operations
	Appraisal	Negot.	Board	Effect.	Appraisal	Negot.	Board	Effect.	
I. 1986 COMMITMENTS									
A. Major Operations									
Trade Policy Ln. I	Completed	Completed	Completed	11/86	Completed	Completed	Completed	Completed	Delay in receipt of Government Export Development Policy Statement (now received).
EDP II	Completed	Completed	11/86	02/87	Completed	Completed	01/87	04/87	
FIRA IX	Completed	11/86	12/86	03/87	Completed	11/86	02/87	05/87	Recess in negotiations pending resolution by Government of self-sustainability issue.
B. Other Operations									
Industrial Recovery	Completed	Completed	Completed	11/86	Completed	Completed	Completed	Completed	
Technology Development	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Tropical Agriculture	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Emergency Reconstruction	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Municipal Development	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Solid Waste Pilot	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
II. 1987 COMMITMENTS									
A. Major Operations									
Small/Med. Industry IV	Completed	01/87	05/87	08/87	Completed	02/87	05/87	08/87	Tentative. To be reviewed again upon receipt of Government restructuring plan.
Fertilizer Restructuring	02/87	07/87	09/87	12/87	02/87	07/87	09/87	12/87	
Agric. Sector Ln. I	01/87	06/87	07/87	10/87	01/87	06/87	07/87	10/87	As agreed during the identification preparation mission last month, preappraisal mission would take place in February 1987.
Trade Policy Ln. II	03/87	07/87	09/87	12/87	03/87	07/87	09/87	12/87	
Ind. Restructuring	02/87	06/87	08/87	11/87	04/87	06/87	10/87	01/88	
Steel Restructuring	02/87	07/87	10/87	01/88	02/87	07/87	10/87	01/88	Tentative. To be firmed-up after December review of sector report.
B. Other Operations									
Agric. Extension	Completed	03/87	06/87	09/87	Completed	03/87	06/87	09/87	Assuming the preparation report establishes the project's economic and technical feasibility, a preappraisal could go out in January 1987. Project preparation report not yet received.
Agro-Industries	01/87	05/87	07/87	10/87	03/87	08/87	10/87	01/88	
Dairy Development	01/87	06/87	08/87	11/87	06/87	10/87	12/87	03/88	
Highway Maintenance	10/86	03/87	07/87	10/87	Completed	04/87	07/87	10/87	
Ports IV	11/86	06/87	08/87	11/87	Completed	06/87	08/87	11/87	
Manpower Training & Dev.	01/87	06/87	09/87	12/87	02/87	06/87	09/87	12/87	
Urban Transport	Completed	01/87	02/87	05/87	Completed	01/87	02/87	05/87	
III. 1988 COMMITMENTS									
A. Major Operations									
Power I	06/87	11/87	01/88	04/88	06/87	11/87	01/88	04/88	
Industrial Sector	01/88	05/88	07/88	10/88	01/88	05/88	07/88	10/88	
Agric. Sector Ln. II	03/88	07/88	10/88	12/88	03/88	07/88	10/88	12/88	
Trade Policy III	02/88	05/88	07/88	10/88	02/88	05/88	07/88	10/88	
B. Other Operations									
Irrigation Rehabilitation	04/87	09/87	01/88	04/88	06/87	10/87	10/88	04/88	Final feasibility report would not be completed until June 1987 as discussed with the Government and FAO. Preappraisal scheduled in July 1987.
Forestry	07/87	12/87	02/88	05/88	11/87	03/88	05/88	08/88	
Health	09/87	11/88		10/88	09/87	05/88	07/88	10/88	
Housing Dev. II	03/87	10/87		02/88	03/87	10/87	11/87	02/88	
Fed. District Water/Sewerage	09/87	01/88	07/88	10/88	09/87	01/88	07/88	10/88	
FIFAPA IV (Water)	09/87	03/88	07/88	10/88	01/88	05/88	07/88	10/88	Delay in implementation of FIFAPA III precludes start of preparation for FIFAPA IV.

OFFICE MEMORANDUM

K S 11/16/86

DATE: December 16, 1986

TO: Mr. Shinji Asanuma, Director, PBD

FROM: Ernest Stern, SVPOP ES.

SUBJECT: Mid-Year Review

1. While we will, of course, make every reasonable effort to respond to your timetable for the mid-year review, we will have to adjust the scope of the work to fit the time allowed. I hardly need to point out that between now and your due date, we have seven holidays and a large number of staff on annual leave. The delay in the issuance of your instructions, avoidable or not, cannot be made up simply by asking everyone else to run faster.

2. In order to try and respond to the basic issues, on a timely basis, I do not propose to deal with item (d) Administrative Processes. As I am sure you know, the new loan procedures became effective only on July 1, they as yet cover only a portion of the loans in process and it would be premature to assess the limited impact today on costs. Similarly, since we have already done an evaluation of the CAM process, and that document has been available to you, there is no need to duplicate it. Regarding Sectoral Emphasis, item (c), we will try to provide a brief synopsis on agricultural research but will not, in the time available, attempt to summarize preliminary conclusions. Mr. Husain has already made a statement to the Board on the Special Program for African Agriculture and Research and you can draw on that.

3. For reasons explained in our response to the dollar budget guidelines, I do not intend to report on the status and commitments on the bilateral agreements for the use of consultants. As indicated in that memo, these are not intended as part of the administrative dollar budget. However, under the cofinancing section, we will be glad to list the donors and amounts.

cc: Mr. Wood
Mr. Ruddy

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PAGE

1 OF 1

OFFICIAL DEPT/DIV
ABBREVIATION

SVPOP

MESSAGE NUMBER

Grid for message number

TEST NUMBER
(FOR CASHIER'S USE ONLY)

Grid for test number

START
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MR. CHUNG, IN-YONG, MINISTER OF FINANCE, SEOUL, KOREA.

LAST WEEK MR. KARAOSMANOGLU SPOKE WITH YOU REGARDING THE PARTICIPATION BY THE KOREAN EXCHANGE BANK IN THE DEBT RESTRUCTURING AND NEW MONEY FACILITY FOR MEXICO. SUBSEQUENTLY, I AM ADVISED THAT THE GOVERNMENT OF MEXICO CONTACTED YOU TO EXPRESS THEIR INTEREST IN COMPLETING THESE ARRANGEMENTS EXPEDITIOUSLY. TIME, HOWEVER, IS NOW VERY SHORT IF THESE ARRANGEMENTS ARE TO BE COMPLETED ON SCHEDULE. I HARDLY NEED TO POINT OUT TO YOU THE IMPORTANCE OF A SATISFACTORY PROGRAM FOR MEXICO IN LINE WITH SECRETARY BAKER'S SUGGESTIONS AT THE 1985 ANNUAL MEETING IN SEOUL, THE PRINCIPLES OF WHICH WERE WARMLY SUPPORTED BY MOST OF OUR MEMBER COUNTRIES. I WOULD NOT ASK FOR YOUR COOPERATION IN AN ESSENTIALLY COMMERCIAL OPERATION, ALTHOUGH IT HAS IMPORTANT GLOBAL POLICY ASPECTS, EXCEPT THAT OUR DIRECT CONTACTS WITH THE KOREAN EXCHANGE BANK INDICATED THAT THEY WERE PREPARED TO JOIN BUT WERE AWAITING GUIDANCE FROM THE GOVERNMENT. WE WOULD APPRECIATE ANYTHING YOU CAN DO TO ASSIST SO THAT THE KOREAN EXCHANGE BANK WILL NOTIFY CITIBANK NEW YORK, THE MANAGER, OF ITS PARTICIPATION THIS WEEK.

REGARDS, ERNEST STERN, SENIOR VICE PRESIDENT, OPERATION,
THE WORLD BANK

END
OF
TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX	TELEX NO.: MIOFFI K 23243	DATE: Dec 16, 1986
SUBJECT: Mexico - New Money Facility	DRAFTED BY: EStern:n	EXTENSION: 72004
CLEARANCES AND COPY DISTRIBUTION: cleared with and cc: Mr. Karaosmanoglu cc: Mr. Park	AUTHORIZED BY (Name and Signature): Ernest Stern	DEPARTMENT: SVPOP
SECTION BELOW FOR USE OF CABLE SECTION CHECKED FOR DISPATCH		

OFFICE MEMORANDUM

DATE: December 16, 1986

TO: Mr. A. David Knox, LCNVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: PERU

1. With reference to your memos of November 25 and 26:
 - a) Power Engineering. Since the Government has asked us to drop this project we should proceed to do so and advise the Board, with the simple statement proposed.
 - b) Industrial Energy Conservation. While conditions do not warrant signature neither do I think it propitious to drop this project at this stage. First, the one-year rule was introduced in order to avoid excessive delays due to bureaucratic inertia in borrowers. The exceptional circumstances in regard to Peru give us adequate discretion to take more time. Second, we are sending a mission in February to conduct a CIP and that would appear to be an appropriate forum to discuss this operation with the Government and explore their interest in cancellation in light of the circumstances. Third, I see no benefit to action now as compared to the end of February when we will have the CIP and Public Expenditure Review behind us. I therefore suggest we review the situation at that time.
2. In current circumstances I see no reason to make the February mission a "high-level" one.

Date: December 16, 1986
To: Mr. Armeane M. Choksi, CPDDR
From: Ernest Stern, SVPOP
Subject: TONGA's IDA Eligibility and Creditworthiness

I advised the Board today that we would consider Tonga eligible for IDA since it was not creditworthy for Bank lending. There was no comment.

cc: Mr. Dubey

ES:dpw

OFFICE MEMORANDUM

DATE: December 16, 1986

TO: Mr. Wilfried Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: NIGER - Proposed Energy Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated December 8, 1986, with the following comments:

- (a) The adoption of the new statutes, the Electricity Code and the "Contrat-plan" for NIGELEC should be a condition of Board presentation rather than effectiveness as proposed;
- (b) In addition, since the power component is presumably a significant part of the project, the signing of an agreement with Nigeria should be an effectiveness condition rather than a condition of disbursement;
- (c) It is assumed that the "Contrat-plan" will set out a comprehensive program for improving NIGELEC's financial position, including adjustments to general tariff levels as appropriate;
- (d) The EPS states that the "apparent" power subsidies to the uranium mines would be eliminated "gradually". Any subsidies to these mines should be eliminated promptly;
- (e) Intermediate targets should be established to reduce NIGELEC's arrears to three months over a two-year period, with initial steps prior to Board presentation;
- (f) Agreement should be reached on the principles for determining household energy prices as well as on specific increases required over the next 2-3 years; and
- (g) I would appreciate a short note describing the arrangements for the distribution of more efficient stoves using wood, kerosene and LPG. I presume that this will be a commercial operation using suitable private organizations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 16, 1986

TO: Mr. Edward V.K. Jaycox, Vice President, ESA

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: MOZAMBIQUE - Proposed Energy Technical Assistance and
Rehabilitation Project

The above proposal is approved based on the parameters indicated in the revised Executive Project Summary dated December 5, 1986, with the following comments:

- (a) Given Mozambique's size and resource constraints, the lower limit on new energy investments requiring prior consultation with IDA should be reduced from US\$5m to US\$3m; and
- (b) The rationale for the different on-lending rates to PETROMOC and EDM should be explained in the project documents.

cc: Loan Committee

OFFICE MEMO ANDUM

DATE: December 16, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES* .

SUBJECT: KOREA - Proposed Pusan Urban Management Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated December 9, 1986, with the following comments:

- (a) The EPS (para 4) indicates that action is contemplated to reduce subsidies and foster cost recovery. However, no indication is provided of the current situation on these issues, the scale of correction required or the envisaged timeframe for action. This should be clarified in the project documents;
- (b) Specifically, the financial status of the new subway system and other major public utilities, including the adequacy of current tariff levels and cost recovery policy in each case, should be elaborated in the project documents, with recommendations for future action as appropriate; and
- (c) I note that a method has been found to improve transport coordination in Pusan, whereas in the case of the Kyonggi Regional Transport Project (for which an EPS was recently submitted) this is still a major outstanding issue. The reason why the Pusan approach is apparently not applicable in other cases is not clear.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 16, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: INDONESIA - Proposed Urban Sector Loan

1. The information provided in your December 4, 1986, memorandum and attached documents on this proposed operation indicates good progress on the various issues raised by the Loan Committee. The Region is authorized to proceed on this basis.
2. Although the proposal to use part of the loan for general import financing is acceptable, the rationale for this will need to be handled carefully in the final documents. The explanation should be couched in general terms and should avoid the technical detail given in paragraph 8 of your memorandum.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 16, 1986

TO: Mr. A. David Knox, Vice President, LAC

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: BRAZIL - Proposed Northeast Rural Development Projects in
the States of Alagoas, Minas Gerais and Paraiba

The above proposals are approved, based on the parameters outlined in the Executive Project Summaries submitted under cover of Mr. Steckhan's memorandum of December 10, 1986, with the following comments/qualifications:

- (i) During appraisal, agreement should be reached with the Government on a timetable which will ensure that the project coordinating units and the irrigation departments in each of the three states are satisfactorily staffed by effectiveness at the latest;
- (ii) Agreement should also be reached with the Government on adequate cost recovery arrangements for public irrigation schemes and rural water supply systems and on appropriate levels of expenditures for operation and maintenance of these schemes/systems;
- (iii) Any Amerindian issues should be settled satisfactorily before Board presentation;
- (iv) Receipt by the Bank of proof of land acquisition and approval of detailed engineering designs and resettlement plans for the activities to be implemented in the first year of the projects should be conditions of Board presentation; and
- (v) Unification of the planning, budgeting, staffing and administration of all special rural programs in the states involved should be a condition of Board presentation, rather than effectiveness.

cc: Loan Committee

Date: December 16, 1986
To: Mr. Barber B. Conable
From: Ernest Stern
Subject: Safe Motherhood

Attached is :

- a memorandum recommending a Bank role in the establishment of a Safe Motherhood Fund with an initial contribution of \$1 million for 3 years. This represents 20% of the total Fund; and
- a strategy paper for the conference you will be attending. It has a short, 2-page Executive Summary.

If you approve the Bank's financial participation PBD will need to be advised to include this Fund in the FY88 budget under Special Programs.

If you have comments on the paper please let me know.

I'd appreciate the documents back with your decision.

Attachments

Date: December 16, 1986
To: Mr. Barber B. Conable
From: Ernest Stern
Subject: West Bank Investments

I have checked on the status of the draft legal opinion regarding West Bank investments. The conclusion is that we would need a loan agreement with the Governor of Jordan and a project agreement with the Governor of Israel. This in itself is unlikely to be achieved. However, in addition the Legal Department shares my views but the major policy problems involved in such lending operations, because of the political environment on the West Bank and the high probability of changing positions, not only by Jordan and Israel but also in regard to the PLO and Syria. Moreover, as I mentioned this morning, I see no benefit for providing a shield for what may be important political objectives of some countries but which would involve us inevitably in one of the most difficult set of political issues in the world. This merely reaffirms my suggestion this morning that you do not indicate any interest or ability on our part to play an intermediary role for financing of projects on the West Bank.

December 15, 1986

Mr. Robert Keating, EDS

Bob,

In the course of the Operations' Briefing last week, you enquired about how we measure efficiency in our operational work. I believe that the attached paper, which was prepared in Operations early last year, provides a useful elaboration of my brief response. The paper outlines both the special difficulties in measuring efficiency in the Bank and how we have tried to establish a system-wide monitoring process to evaluate qualitatively those aspects of our work which are not amenable to meaningful quantitative monitoring.

But, it also shows that the measurable indicators of Bank efficiency in terms of elapsed time or applied time for specific loan processing stages have remained remarkably stable over a decade. When viewed in the light of the growing complexity and diversity of borrower needs and Bank work, we believe that this strongly suggests that there have been important efficiency gains in Operations.

Of course, that is no cause for complacency, which is why we have introduced the Country Assistance Management process, the Management Information System and the revised loan processing procedures which streamline decision-making, clarify responsibility and eliminate duplicative reviews. Initial indications are that these changes will yield important benefits, both in identifying country needs, speeding up our response capacity and strengthening the delegation and implementation of clearly defined tasks.



Ernest Stern

Attachment

1 2

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

ERNEST STERN
Senior Vice President, Operations

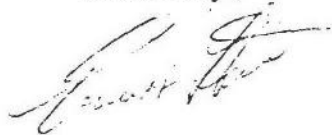
December 15, 1986

Dear Mr. Prasad:

Just to let you know that I have advised Bevan Waide of our conversation. Whenever you are sufficiently advanced with the various ideas we discussed, he will be glad to obtain from Washington any writings on the topic, or the results of comparable efforts elsewhere, with which the Bank may be familiar. Please do not hesitate to call on him.

It was good to see you again. All the best for 1987.

Sincerely,



Mr. N. B. Prasad
7 Banjara Hills
Hyderabad 500034
India

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

ERNEST STERN
Senior Vice President, Operations

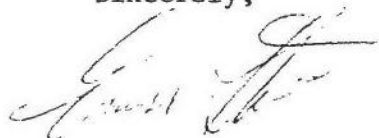
December 15, 1986

Dear Mr. Kneubuehler:

Thank you for the box of Philippine cigars, which arrived the other day. I have made a pledge for the New Year to give up my cigar smoking, and these cigars will provide a tasty ending.

With best wishes for a merry Christmas and a good 1987.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern".

Mr. Oscar J. Kneubuehler
Executive Vice President
Societe Generale de Surveillance S.A.
1, place des Alpes
Case postale 898
CH-1211 Geneve
Switzerland

Date: December 15, 1986
To: Mr. Wilfrief Thalwitz, WANVP
From: Ernest Stern, SVPOP
Subject: Banque Ouest Africaine de Developpement (BOAD)
Project Preparation Credit 969-WAF - Extension of Closing Date

I agree with the reasoning that, given the nature of the project, an extension should be routine since most of the funds are committed. I am surprised therefore that we are getting around to the extension almost six months after the closing date.

Please advise BOAD, when informing them of the extension, that there will be no further extension under any circumstances.

Also, from the "white elephant" list prepared for the DAC meeting, it appears that BOAD has been involved in a number of the projects. I think this may be an opportune occasion to draw their attention to this problem. Unless their appraisal capacity improves I do not see how we would justify a follow-up operation.

cc: Mr. Serageldin

RS:dpw

December 15, 1986

Mr. Waide

Bevan-

Last week, N.B. Prasad, whom you know, was in Washington at the end of an energy sector mission to Indonesia. He came to see me and told me about his increased participation in the Andhra Pradesh Government. He is working with the Planning Board and is chairman of an industry and technology board. He was, not surprisingly, appalled at what he has found---lack of any planning capacity, priorities which ignore health and education, and a system which ignores results while focussing on new starts, preferably with Delhi's funds. He has a number of very useful and practical ideas to improve the efficiency of the educational system which are to be pilot tested. He also is trying to restructure the planning effort by getting some input from local levels about relative priorities.

While there is little we can do to help in this, I told him that he need not reinvent the wheel. A number of the specific ideas he is thinking about have been either tried elsewhere or written about. I told him that, as he firms up his ideas, he should feel free to call on you and that you would arrange to obtain the relevant literature---conceptual and about experiences elsewhere---for him. In addition, if any of our staff visiting India have relevant knowledge, we would be glad to inform him so that either they could go to Hyderabad for a day or he could meet them in Delhi.

Improving the functioning of State Governments is a very important objective and, although this may not yield anything more than previous attempts have in this area, I thought you would not mind providing this modest support. In any event, I presumed to pledge your cooperation. David has been advised.

Best wishes for Christmas and 1987.



Ernest Stern

December 15, 1986

Mr. Thalwitz

Wilfried -

In the course of my recent meeting with Mr. Trichet, he asked that the Bank strengthen its contacts with the French Treasury concerning countries which are of particular interest to France in West Africa. He pointed out that France plays a major role in providing concessional flows to these countries and that, typically, IMF missions have much closer systematic contacts with the French Treasury on these countries.

I agreed that we will increase these contacts by having the mission leader for key macro-economic or sector missions (economic missions, adjustment loan appraisals, etc.) visit the French Treasury, either en route to or from their mission, to brief them on developments. The contact point for these arrangements is Mr. Samuel-Lajeunesse.

Could you please bring this request, and our agreement, to the attention of the relevant managers in the Region. It should only be necessary for the mission leader to visit the French Treasury, and only when substantial policy issues with macro-economic dimensions are being actively discussed with the borrowers. We should resist scheduled visits to the Treasury both before and after missions, one meeting should suffice with any other follow-up being handled by telephone.



Ernest Stern

December 15, 1986

Mr. Waide

Bevan-

Last week, N.B. Prasad, whom you know, was in Washington at the end of an energy sector mission to Indonesia. He came to see me and told me about his increased participation in the Andhra Pradesh Government. He is working with the Planning Board and is chairman of an industry and technology board. He was, not surprisingly, appalled at what he has found---lack of any planning capacity, priorities which ignore health and education, and a system which ignores results while focussing on new starts, preferably with Delhi's funds. He has a number of very useful and practical ideas to improve the efficiency of the educational system which are to be pilot tested. He also is trying to restructure the planning effort by getting some input from local levels about relative priorities.

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Best wishes for Christmas and 1987.


Ernest Stern

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December 15, 1986

Mr. Wapenhans

Willi -

Mr. Benachenhou came to see me last week to complain about the lack of adequate information from EMENA about activities in his constituency. He cited, among other examples, that he had to take the initiative with loan officers and other staff to find out about ongoing discussions and negotiations rather than have staff keep him informed. He claims he has made several attempts to have the system improved to no avail. He also said that he had neither been advised of your trip to Algeria in advance, nor consulted about the issues you were going to raise.

I do not know how much of this is perception and how much is reality. But it is clear that you need to make a serious effort to resolve the problem before it gets out of hand. As you know, EDs are entitled to timely information, and the Department Directors should be personally responsible for seeing that they have an adequate system in place to ensure a regular flow of information. You should, of course, see Mr. Benachenhou at your earliest convenience to discuss the necessary improvements.


Ernest Stern

December 15, 1986

Mr. Golan

Amnon -

Thanks for sending along the report on India's Industrial Regulatory Framework. It is a good and well-written report. For such future reports, we should probably give attention also to the corporate tax structure and its effects on investment incentives, concentration, competition, as well as more attention to legislation affecting labor costs and to the impact of the framework on capital-intensive versus labor-intensive choices.

Since we can only do a limited number of such analyses, we need to focus on those countries where there is a real prospect for consequent action--- either likely to be incorporated in loans or in a general adjustment program. Mexico, Brazil, Tunisia, Morocco, and Argentina would seem suitable candidates.



Ernest Stern

December 15, 1986

Mr. Paijmans

Martijn -

The attached letter from Mr. Mung'omba is self-explanatory.

He did a good job at the African Development Bank but, as always, our ability to hire at a level appropriate to Mr. Mung'omba's stature is very limited. I think this requires your personal attention and a personal response from you.



Ernest Stern

December 15, 1986

Mr. Rovani

Yves -

Regarding procedures, PMD did not learn of the "no-poaching" rule through OED. It was discussed by the OVPs in October, and Mr. Cosgrove referred to it in his November 6 memo to Mr. Churchill, a copy attached.

As to the substance, this is a lateral transfer and Mr. Churchill, Mr. Byer's supervisor, objects to it, as he is entitled to. He believes that, in view of the imminent regionalization of the energy work, Mr. Byers is the best candidate to lead such work in LAC. This is an important consideration, and I see no basis for overruling Mr. Churchill's decision.

The position you have is for infrastructure in general, and I would be surprised if we did not have an ample supply of qualified people in this area so that we can avoid selecting a staff member who has special skills in short supply.



Ernest Stern

cc: Mr. Churchill
Mr. Cosgrove

December 15, 1986

Mr. Bock

David -


I did not find this paper to be one of FPA's better products. The writing could stand a lot of tightening; I have noted my substantive comments in the margins. I do not think you will find the comments too difficult--- since the conclusions are fine and will be strengthened by the changes--- but, I would be glad to discuss them, if necessary. By and large, the major points need to be taken care of before this can go to the Board.

In particular, the argument on the difference between loans and guarantees as to their disbursement characteristics is poorly handled in para 11. I know about Mr. Shihata's views, but I have suggested an abbreviated treatment which should give him no trouble. But, the argument comes back in paras 23-24. Two points are confused there. The committed but undisbursed balance provides as much protection to guarantee payment due as it does to the outstandings under the loans. But that is a risk consideration. It has nothing to do with the fact that guarantees, when callable, should be considered part of our exposure.

It would also be useful to mention at the outset that guarantees, after Mexico, total only [\$ 1 billion] out of total disbursed and outstanding of [\$ billion].

The addition to para 28 also is important. Let us not leave the impression that country lending levels are firmly fixed annually---or even for any 5-year period.

Finally, I did not understand the point in para 31 about implicit guarantees of interest.


Ernest Stern

cc: Mr. Wood

December 15, 1986

Mr. de la Renaudiere

Xavier:

Re: UNDP Monitoring Project

Obviously the project proposal addresses some important issues. But, in total, I am not sure it strikes an appropriate balance between needs for central data and local data requirements for management. For instance, it would, of course, be nice to have Africa-wide data on public enterprise performance available at the touch of a button but for whom? How often will it be needed? And how do the uses compare to the costs of standardizing across countries and keeping such standardized data -- which may not be identical to local formats -- current? The proposal also seems to me to grossly underestimate the problems of generating the data. This will require major institutional work in a substantial number of the countries. Has this been appraised? Do we know what we are getting into?

I would find it useful to meet with some of the relevant people -- Regional VPs and Chief Economists, EPD, OPS -- to hear their reactions and views. Would you set up such a meeting in the near future.

As to funding -- you are familiar with the constraints we will face in FY88, i.e., no increase in real terms and no increase in staff. Since you may need additional funds for the Futures study I see no possibility at this stage for committing an additional \$200,000. As to the time of Humphrey and Chander, that is up to you. I cannot, however, offer replacement staff time.

Ernest Stern

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
Washington, D.C. 20433
U.S.A.

December 12, 1986

Mr. Jose de la Ossa
Vice President
CITIBANK
399 Park Avenue
New York, N.Y. 10043

Dear Mr. de la Ossa:

As you know, the Government of Uruguay has encountered an unexpected delay in making the World Bank loan for the Power Sector (Loan 2622-UR) effective because of the difficulty of obtaining timely congressional approval. The necessary legislation was approved by the Senate on December 10 and will go before the Deputies in the next few days. However, because the Government cannot control the congressional calendar, it is uncertain that congressional action will be completed before December 18, our original deadline for the effectiveness of our loan. At the request of the government of Uruguay, we have agreed to extend the effectiveness of our loan (the A-loan) from December 18, 1986 to March 31, 1987. After congressional action is completed, the only remaining condition of effectiveness will be the receipt and review by us of the standard documentation and legal opinion, which can be completed expeditiously.

I wanted to bring this matter to your attention because the disbursement of the commercial bank loan (B-loan) is linked to the effectiveness of our loan. While we are still hopeful that effectiveness can be obtained before December 31, we believe that there is a substantial risk that action will be delayed until early next year. We, therefore, think that it would be highly desirable to extend the availability period for the B-loan in line with our extension of the effectiveness date, since the two operations are part of a single package which is of high priority for Uruguay's development program.

The unanticipated delay in making the loan for the Power Sector effective has delayed investments which the loan was intended to finance. There is no doubt, however, that the energy investments, which our loans are financing, remain a very high priority and are essential features of Uruguay's streamlined investment program. Obviously, the balance-of-payment support for 1986 will not materialize due to this delay, but the interim measures taken by the Government, including delays in investment expenditures, justifies our financial support even though it will become available only early in 1987.

We also understand that the government of Uruguay has requested an amendment of the B-loan agreement to add the Banco de la Republica Oriental de Uruguay (BROU) as an intermediary between the Central Bank and UTE. We believe that this amendment, which is only technical in nature, is necessary and appropriate, and would hope that you and your colleagues would find no difficulty in agreeing to it.

We have urged the Government of Uruguay for early action by the Congress, and we are convinced that the Government has made every effort in this regard. We hope that, despite this unanticipated delay, we can continue to support Uruguay's adjustment effort by extending the availability period for the B-loan.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

Ernest Stern
Senior Vice President
Operations

Cleared with and cc: Mr. Toft
Mr. Collell
Mr. Vibert
Mr. Gue
Ms. Marshall

Date: December 12, 1986
To: Mr. D. Joseph Wood, FPBVP
From: Ernest Stern, SVPOP
Subject: Draft Memorandum on FY88 Budget Framework

I think the draft memorandum on the FY88 budget framework is fine.
There are only a few points:

- a) If we are going to take a less detailed approach to the budget in light of the reorganization we probably should advise the Board in this memo.
- b) Para 19 should be put in the present tense, since it has been done. Page 11 is attached.
- c) Para 14, did not describe the increased coordination activity well. A revision is attached.
- d) I would appreciate it if in Attachments 2 and 3 you would use only the sub-total for Operations. Showing the split makes internal allocation discussions more difficult.

Attachments

ES:dpw

OFFICE MEMORANDUM

DATE: December 11, 1986

TO: Mr. Joe Wood, Vice President, PBD

FROM: E. Stern, SVPOP *ES*.

SUBJECT: FY88 Budget Process

1. I have already responded to Mr. Asanuma's memorandum of December 2 which dealt with the dollar budget. While doing so, and as we proceed into the budget process, I am increasingly concerned by its irrelevance in light of other circumstances which have changed substantially since the discussion started.

2. The focus of this year's budget, which is largely on redeployment, is inadequate. Redeployment means not only reallocation of work but reallocation of staff and position redundancies. Yet, at the same time, we are faced with a reorganization which will involve not only substantial uncertainty for most of the budget preparation period but also major organizational changes within units and between units. From the viewpoint of the managers, it is almost impossible to make the kinds of decisions necessary to effect the savings assumed in the budget and to begin, undertake the necessary personnel actions. This is all the more difficult now since savings that would have emerged from the regionalization of EIS have been delayed pending the major reorganization. With the reorganization, there will be considerable uncertainty as to each manager's work program and responsibilities during the budget period. It seems unnecessarily disruptive to begin shifting staff, or to identify those who have to be shifted, in an organizational framework which may no longer exist. Yet these shifts are essential if any of the savings proposed are to be realized in the course of the year. If implementation of personnel changes only starts on July 1, then the full year saving which you are assuming cannot be achieved. But to move people in March and April, only to have them move again when the reorganization is completed would seem an undue hardship.

3. We need, therefore, to consider whether, in light of these recent developments, we should not take a different approach to the budget -- essentially, freezing it at FY87 levels and leaving the new initiatives to be funded by adjustments which will materialize either as a result of reorganization or those proposed in the three-year budget framework. We would thus operate under some form of "continuing resolution". I would be pleased to discuss this proposal with you in more detail but we need to agree our strategy soon.

cc: Messrs. Conable, Qureshi, Asanuma

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OFFICE MEMORANDUM

DATE: December 11, 1986

TO: Mr. Shinji Asanuma, Director, PBD

FROM: E. Stern, SVPOP *ES*

EXTENSION: 72004

SUBJECT: Dollar Budget Allocations

1. I refer to your memorandum of December 2, dealing with the dollar budget. For reasons set out below, it is very difficult to understand the rationale for a two phased budget exercise. We have suggested all along that the time is long overdue when PBD should present the position allocation and dollar budget together, since it is only then that managers can assess the resources which are likely to be available and comment sensibly on what that means in terms of the proposed work program. We have now spent several weeks debating position allocations which has made the processes very late. It now turns out to be meaningless. All the additional staffyears allocated to Operations were consultants. If it was the intention to allocate fewer positions or staffyears, it would have been much simpler to say so at the outset. Your approach is neither meaningful nor efficient and seems particularly counter-productive in a period when we are strongly emphasizing more common sense and greater efficiency. Below are specific comments on the proposed dollar budget allocation.

2. Your memorandum indicated that in net terms our work program for FY88 will grow by 33 sy over that of FY87. We would have expected this to be accompanied by dollar growth of about \$3.5 million. Instead, we note that our dollar budget will decline in real terms by \$1.7 million. I have serious reservations with your proposal to inform the Board that we will be able to do 33 sy of additional work within a declining dollar budget.

3. Before dealing with the dollar issue in more detail, let me comment first on our position allocation. I note that, despite OMSB's memorandum of December 1, you have programmed Operations to grow by 4 HL positions in the period to FY90 but that you have programmed us for 5 positions less in FY88. This is neither reasonable nor workable. For instance, you allocate 2 positions for new initiatives in OPS but these have already been allocated by the President to Women in Development. To suggest no response in FY88 on the environmental side is both wrong substantially and suicidal externally. I ask again that you review this assumption. Given the other reductions and redeployment objectives, I cannot compensate for this by further adjustments elsewhere.

4. Until we received your December 2 memorandum, we were unaware that you were proposing a tax of \$4.5 million on our budget, albeit that this is partly offset by growth of \$2.8 million. We note that

that you have three vehicles for mounting this tax. First, you propose a unilateral reduction in the volume of travel to the level achieved in FY86. This results in a "saving" of \$2.6 million (Table 4). I am not sure how you reach this conclusion. Our travel budget in FY87 is, in fact, slightly smaller in real terms than our actual travel expenses in FY86. Moreover, even if this were not the case, it is not surprising that the volume of travel is, in general, increasing since the considerable increase in our policy and adjustment work requires much greater contact between the Bank and Borrowers than did traditional project lending. Moreover, frequency of travel for supervision--essential if we are to increase the quality of our portfolio--is also increasing. You are aware that I do not specify the budget for each OVP unit by line item. We work on the principle that divisional managers are best placed to determine the mix of inputs that will maximise outputs. It is their considered judgment that travel does need to be maintained at a high level if we are to get the job done. There is no substantive analysis which you have shared with us which warrants a cut in the frequency of travel. Consequently a cut of some 4.5% to our travel budget is merely a thinly disguised across-the-board tax.

5. This holds true also for your second tax, a 1% reduction in non-salary and non-travel allocations (\$0.9 million) -- the rationale of which I fail to understand. In past years, a 1% productivity savings was fully supported by me -- but this year you have already assumed more than that in the redeployment assumptions. This is plain double counting.

6. Your explanatory note to Table 3 also contains a third and hidden tax of \$1 million, which is not shown on Table 4. Essentially, you argue that the Consultant Trust Funds can substitute for funds received through the administrative budget. However, when these agreements were established, donor countries made it quite clear that these funds were not a substitute for the Bank's administrative budget but that they were to enable the Bank to supplement its resources through additional use of say, Italian or Canadian consultants. The resources in these Trust Funds legally remain the resources of the donor, which the Bank may use under certain conditions, for example, some donors decide which countries or which type of project these funds may be used for. Your tax is violating the spirit of these agreements. If maintained, I will inform the donors that we are terminating all these agreements. Donors did not intend to fund normal administrative expenses and I will not be party to such a deception.

7. What then is the net impact of your budgetary proposal? If unit discretionary costs remained unaltered at about \$107,000 per staffyear, we would have to cut our output by 16 sy to reflect the cut of \$1.7 million. In fact, you propose that we do 33 sy more work in FY88. In sum, you are asking that we fund 49 sy through lowering unit discretionary costs. We would have to lower costs by 1.9%. However, since our salary budget is effectively fixed, this is equivalent to a reduction on the non-salary component of our discretionary unit costs of 4.5% -- a sizeable cut in real

terms. This is not feasible and will lead to a reduction in services, which, I believe, we must spell out. Second, I think we are establishing a dangerous precedent that we can "do more for less." The logic of your paper would suggest that by FY90, Operations would be doing the 113 sy of additional work called for in your paper with a budget that is \$5 million less than our current budget. I do not see savings of this magnitude and it would be more honest (transparent, if you like) to reduce the staffyear allocations explicitly.

8. I have always said that we can manage within any budget provided we can adjust the work program to the budget constraints. It would be unfortunate if we started the practice in the Bank of proposing budgets which promise work programs which managers have no prospect of delivering. We should not be held responsible for instance if, at the end of FY88, we do not meet our staffyear targets because it has not proved feasible to reduce unit costs to the extent implied; nor if we have to reduce supervision, support services or aid coordination.

9. Operations and PBD need to resolve these differences as soon as possible, as we cannot proceed with drawing up the FY88 guidelines until we have consistency between the work program and dollar budget.

cc: Messrs. Wood, Challa

MTC

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December 11, 1986

Mr. Yeo

Ed -

Attached is the current draft of a paper on Brazil. It is an early version, not yet reviewed either by Regional management. Moreover, as the introduction notes, the impact of the recent policy decisions have not been worked into the numbers or the strategy. However, the content of the sectoral issues listed in the Action Plan are unlikely to be affected.

The paper is weak on the monitoring, in the absence of a more direct Fund role, and does not yet include what kind of agreement we will need to seek on the overall public investment program.

I am passing it on in this tentative form for your background information. Of course, the paper should not leave your office, be reproduced or shared with others in the USG or in Brazil. Obviously, this does not mean that the ideas cannot be included in your discussions---assuming you agree with them.

If you have any comments, I would be glad to get them at your convenience.



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C O N F I D E N T I A L

BRAZIL - MEDIUM-TERM GROWTH STRATEGY

November 24, 1986

COPY NO. Y

for _____

C O N F I D E N T I A L

OFFICE MEMORANDUM

DATE: December 11, 1986

TO: Mr. V. Rajagopalan, Acting Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: OMAN - Proposed Health Project

The approach outlined in your December 8, 1986, memorandum is acceptable, with the following comment:

While a dated covenant may be agreed for introduction of a cost recovery system, the Region should seek the Government's agreement in principle to the concept of cost recovery, at least for curative services. In addition, the proposed management information system should be designed in part to assist in implementing an effective cost recovery system.

cc: Loan Committee
Mr. Wapenhans (o/r)

The World Bank

ERNEST STERN
Senior Vice President
Operations

December 11, 1986

Mr. Stanton

Bill -

Per your request of December 5, you may wish to consider:

- (1) Mr. Köpp, Director, PPD
- (2) Mr. Rajagopalan, Director, EMENA
- (3) Mr. Chaffey, Division Chief, EMENA
- (4) Ms. Marshall, Division Chief, LAC



The World Bank

ERNEST STERN
Senior Vice President
Operations

December 10, 1986

Mr. Conable

Barber -

CF
2/

I met with Mr. Mobutu in your absence. He treated us to a long lecture---but, I think they are ready to take the necessary actions to get the Fund Program, and ours, back on track. A copy of the Minutes of the meeting is attached.

Ernest

OFFICE MEMORANDUM

DATE: December 10, 1986

TO: Mr. A. David Knox, Vice President, LAC

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: BOLIVIA - Proposed Power Rehabilitation Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum of December 1, 1986, with the following comments/qualifications:

- (i) The power-sector-related covenants of the Reconstruction Import Credit (RIC) approved in June 1986 should be repeated in the appraisal and loan documentation of the proposed project to ensure that they will continue to be implemented in the context of the project.
- (ii) The preferred solution to the issue of tariff-setting would appear to be the dismantling of the present requirement for Empresa Nacional de Electricidad S.A. (ENDE) and the distribution companies to negotiate their rates with their respective customers. If that is not feasible and it is necessary to resort to the solution proposed in the EPS, electricity tariffs should only be set by Direccion Nacional de Electricidad (DINE) after adequate consultation with ENDE and the distribution companies and taking into account their financial position and the costs to them of providing electricity.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 10, 1986

TO: Mr. A. David Knox, Vice President, LAC

FROM: Ernest Stern, Chairman, Loan Committee *ES.*

SUBJECT: URUGUAY - Proposed Refinery Modernization Project

The above proposal is approved, based on the parameters outlined in the Decision Memorandum of November 25, 1986 and related documents, with the following comments/qualifications:

- (i) If the study of pricing and taxation at the producer level (paras 7 and 11 of DM) and the retail petroleum product pricing study (para 14 of DM) are indeed required before action can be taken, they should be carried out and their recommendations discussed and agreed as early as possible. Specifically, efforts should be made to have the TORs agreed during the planned post-appraisal mission and the consultants selected by negotiations. It is, however, not clear why the Government needs to continue to control input prices and cannot rely principally on the corporate income tax to obtain its share of any profits due to product price changes. If this is to be a more commercial operation, the issue of government tax on products, for conservation or excise purposes, needs to be separated from the taxing of the company's activities. Detailed government intervention at both the producer and consumer level is not consistent with a commercial operation which, presumably, is the objective of our intervention;
- (ii) The measures required to strengthen ANCAP's project implementation unit should be taken as soon as possible in the project cycle, and certainly no later than by effectiveness;
- (iii) The Region should seek agreement with the Government and ANCAP on their future expenditure program in the petroleum refining and distribution subsector; and
- (iv) A statement should be included in the project appraisal documentation on the environmental impact of the proposed project.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 10, 1986

TO: Mr. V.N. Rajagopalan, Acting Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: OMAN - Proposed Third Education Project

The above proposal is approved, based on the parameters outlined in the Issues Paper and Decision Memorandum submitted under cover of your memorandum of December 1, 1986, with the following comments/qualifications:

- (i) Since this is the last education project which it is proposed for the Bank to finance in Oman, it would seem appropriate and necessary for the Region to agree with the Government on a clear and comprehensive strategy for the development of the education sector in Oman and on an adequate level of expenditures to implement that strategy. Is the Region satisfied that the substantial reduction in the estimated investment budget for this sector during the Third Five-Year Development Plan is appropriate, in the light of other needs and priorities and of available resources? The project appraisal documentation should elaborate on the agreed sector strategy and expenditure program;
- (ii) The project appraisal documentation should outline the lessons learned from the implementation of the two previous education projects and should indicate how these lessons have been incorporated into the design of the proposed project;
- (iii) It is not justifiable to consider financing 68% of project costs in a country with Oman's per capita income level, even in these difficult times, and the loan amount should, therefore, be reduced to the normal 35% of project costs; and
- (iv) The project cost is shown as US\$25.7 million in the Issues Paper (para 10) and as US\$28 million in the Decision Memorandum (para 4). Which is it?

cc: Loan Committee
Mr. Wapenhans (o/r)

OFFICE MEMORANDUM

DATE: December 10, 1986

TO: Mr. V.N. Rajagopalan, Acting Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: TURKEY - Proposed Izmir Water Supply and Sewerage Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum dated December 5, 1986, with the following comments/qualifications:

- (i) Agreement should be reached with IZSU on its overall expenditure program over the next several years with a view to ensuring a sustainable level of expenditures and an appropriate mix of new investments and maintenance of existing investments;
- (ii) The project appraisal documentation should elaborate on the institutional capacity of IZSU to undertake projects of this scope and on its present and prospective financial position; and
- (iii) The project appraisal documentation should indicate how the Government and the Municipality will pass on their funds to IZSU (e.g., loans, equity, etc.).

cc: Loan Committee
Mr. Wapenhans (o/r)

OFFICE MEMORANDUM

DATE: December 10, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: PAKISTAN - Proposed Refinery Energy Conservation and
Modernization Project

The above proposal is approved as outlined in the Executive Project Summary submitted under cover of your memorandum of December 4, 1986, with the following comments/qualifications:

- (i) The Region's proposed position on the foreign exchange risk issue is endorsed, but it should provide for periodic adjustments to the total interest rate charged to the final borrower to reflect actual and expected changes in domestic and foreign inflation and exchange rates;
- (ii) Since a substantial study has apparently already been completed of ex-refinery prices, a tighter and shorter timeframe should be established for the development and implementation of the new pricing formula;
- (iii) It is not clear why either the Ministry of Production or Petroleum should be involved in the processing of private refinery investment proposals. The streamlining of the investment approval process should be pursued in the context of this project;
- (iv) Since the EPS makes no mention of any issues concerning NRL's organization and management or its financial position and prospects, it is assumed that none exists. This should be substantiated in the project documents; and
- (v) Since no specific refinery investments were included under the agreed core investment program pending review of the findings of the Petroleum Products Infrastructure Study (PPIS), it is assumed that the investments proposed under the present project are of such high priority that they would fit into any refinery investment program that might be agreed upon subsequent to GOP-Bank review of PPIS.

cc: Loan Committee

December 9, 1986

Mr. Wood

Joe -

Japanese Special Funds

Re your memo of December 5, my general reaction is that we are providing an excessive menu for a relatively small amount of money. Specifically, I am prepared to consider a Technical Assistance Fund not to exceed \$ 10 million for three years to be used for Bank eligible borrowers. I think these funds could be utilized along the lines of the SPPF or under the general roles covering the technical assistance umbrella agreements we have signed with a number of other countries. In addition, we can suggest emergency reconstruction loans and define this, as you do, to include loans following natural disasters or economic turmoil. In doing so, we automatically cover your second category of initial funding for adjustment efforts. Since the amount involved is only \$ 40 million in FY87/88, this can readily be absorbed in Bolivia and El Salvador alone. We do not need at this time to introduce countries listed in the appendix---most of which do not offer realistic possibilities.

Considering the minimal amounts of money available, I do not think it is worthwhile to reopen the small-island economies question. They are not now eligible for Bank lending and we do not want to make them eligible in order to benefit from grant funds.

I agree with you that we should not include Technical Assistance components, and I would not even make the suggestion to the Japanese.

If we do indeed get \$ 80 million in each of the subsequent two years, I would see no difficulty in blending that amount in 2-3 operations involving a physical emergency or for countries whose economic situation has deteriorated so badly, but who are prepared to initiate an adjustment effort.


Ernest Stern

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 9, 1986

TO: Executive Directors

FROM: Ernest Stern, Senior Vice President, Operations - *ES*

SUBJECT: DAC High-Level Meeting Conclusions

At the DAC High-Level Meeting, held in Paris on December 1-2, DAC members approved a set of Guiding Principles for Aid Coordination.

Attached, for your information, is a copy of the DAC document. The Guiding Principles are stated in paragraphs 10-34. We welcomed the adoption of these principles which, if translated into operational guidance, will provide a substantially improved framework for aid coordination. I would draw your attention particularly to paragraphs 14-17 on the importance of adhering to agreed investment programs and to paragraphs 26-27 on the importance of local coordination and the central role of the recipient country in that process.

Attachment

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 8, 1986

TO: Regional Vice Presidents

FROM: Ernest Stern, SVP, Operations

SUBJECT: Guiding Principles for Aid Coordination

At the DAC High-Level Meeting, held on December 1-2, members approved "Guiding Principles for Aid Coordination". These are described in the attached document, starting with paragraph 10.

I want to draw your attention especially to paragraphs 14-17, 23 and 26-28.

These principles, if translated into Operational guidance and adhered to, will help to make aid coordination more effective. I have sent copies to all our field offices for their information.

We welcomed the adoption of these principles, but stressed that they had to be translated into Operational guidance within each agency, if they are to have the desired impact. Moreover, we emphasized that the relevance of these guidelines went beyond the operations of aid agencies. Aid agencies should play a more active role within their governments, to assure that these principles are taken into account by export credit agencies and other sources of official finance.

These "Guiding Principles" are, of course, only a first step. But they are a useful expression of intent which can, and should, be used by us in our coordination efforts.

Several DAC members suggested that progress on aid coordination should be closely monitored and reviewed at a DAC meeting in the next year or so. Since we can expect that the Bank will be called upon to provide the basis for this review, I have asked the Special Office for Africa to establish a standardized monitoring system to permit us to aggregate and evaluate information on:

- o The adequacy and timeliness of commitment and disbursement data by donor and type of assistance. (This will be based on the existing standardized forms which are sent to donors for completion, prior to aid group meetings.)
- o Adherence to priority investment programs. (Evidence of project proposals promoted by donors which are not in line with agreed priorities); and
- o Donor and borrower participation in, and support for, local aid coordination efforts.

Staff should also be aware that DAC members are monitoring the Bank's efforts in aid coordination as we monitor theirs. Donors rightly expect the Bank to be evenhanded in our review of project proposals, to be realistic and consistent in our own commitment and disbursement projections, and to be collaborative and supportive of local aid coordination efforts.

Attachment

cc: Messrs. Husain, Inakage, de la Renaudière, Dubey
Programs Department Directors
Programs Divisions Chiefs
Cofinancing Coordinators

AID FOR IMPROVED DEVELOPMENT POLICIES AND PROGRAMMES AND
IMPLICATIONS FOR AID CO-ORDINATION: DAC HIGH-LEVEL MEETING CONCLUSIONS

I. The Nature of the Problem

1. Much of recent DAC work has been concerned with the problems of adapting aid to support improved development policies by developing countries and the related problems of aid co-ordination. These problems were summarised in "Twenty Five Years of Development Co-operation: A Review" along the following lines.
2. The number of development assistance institutions operating in developing countries has expanded substantially in recent years. Two dozen donor governments, some ten multilateral development banks and funds, nineteen United Nations agencies and several hundred non-governmental organisations currently provide development assistance. Some donors use more than one administrative unit to channel aid funds to recipient countries. Additionally, export credit agencies and commercial banks provide finance to countries they judge to be creditworthy.
3. The funds made available from external sources vary greatly as to their financial terms and other conditions (procurement regulations, end-use controls, counterpart requirements, etc.). Donor preferences for particular sectors, projects and approaches are also often different. In addition, there are differences among donors in their willingness to provide certain kinds of aid, and in the degree of their involvement in managing the aid delivery process. Several donors maintain full-time field staffs in recipient countries to administer aid programmes. Others work mainly through resident diplomatic missions, augmented in some cases by regional aid offices and in all cases by visiting development specialists.
4. Adding further to the complexity of the aid process is the wide variety of needs for aid: to help finance capital projects in many different sectors involving different planning and executing agencies; to provide technical assistance for strengthening local management, research, training and other institutions; and to provide funds for essential imports, such as fuel, other production goods, spare parts and, in some cases, food.
5. To ensure that this complex process, involving divergent sources and diverse activities, interrelates effectively with the recipient country's own resources and programming processes requires an extraordinary organisational effort. Frequent donor-recipient consultations on policy and procedural issues are required to establish agreed purposes, approaches, administrative systems and supporting measures for each aid project or programme.
6. Aid effectiveness has been impaired in a number of instances where a recipient's limited planning or administrative capacity was unequal to the demands of aid management. In some cases the aid received may have been substantial in the aggregate but nonetheless short of the critical mass because of insufficiently concerted planning and concentration of resources.

7. Moreover, experience has shown that for aid to make a lasting contribution to the economic and social well-being of developing countries it must be concerned not only with the proper selection, design and implementation of individual projects and their economic and institutional sustainability but also with the support of broader sectoral and national efforts and policies.

8. Policy decisions cannot and should not be imposed from outside. Donors must strive to understand the political, institutional, economic and social considerations that affect the recipient's capacity to undertake policy adjustments. Closer working relations and co-operation are most likely to evolve from intimate donor knowledge of the political and socio-economic context of the recipient country and from the provision of aid on an increasingly assured, continuous and predictable basis.

9. For donor advice in the policy and programming dialogue to be credible, it must be consistent as well as competent and reflect full understanding of the variety of economic and other constraints facing the developing country. A profusion of conflicting advice from a multiplicity of donors can be counterproductive. Policy reform efforts are most likely to be fruitful when they are concentrated on key problem areas and when the responsible authorities -- central and sectoral -- assume responsibility for policy analysis and decisions. It is a basically unhealthy situation if developing countries have to rely heavily and repeatedly on donors to carry out their policy analyses and programme planning.

II. Guiding Principles for Aid Co-ordination with Developing Countries

10. It is against the background of the above considerations that DAC Members have, at their 1986 High-Level Meeting, adopted the following principles. These principles must be used flexibly to meet the diversity of specific situations; they apply mainly to developing countries which depend heavily on external assistance and need the support of international aid co-ordination arrangements to ensure effective use of resources. DAC Members recognise that developing countries themselves are responsible for setting their policies and priorities and that central responsibility for aid co-ordination lies with each recipient government.

i) Donor Co-operation to Help Developing Countries Establish and Implement Improved Policies and Carefully Appraised Investment and Expenditure Programmes

11. Developing countries need well-designed policies and carefully appraised investment and expenditure programmes for effective and co-ordinated use of both their national and external resources.

12. DAC Members recognise the importance of the World Bank/IMF-led process of working with developing countries in the articulation of structural adjustment programmes. They welcome the recent shift in the orientation of structural adjustment programmes toward growth. They agree that structural adjustment programmes should take fully into account equity and income distribution issues and would like to see more explicit addressing of budget

and strategy issues in human resources questions such as education, health and population, as well as environment. They note that structural adjustment programmes can make a contribution to creating the conditions which in the medium-term may encourage a resumption of private flows to developing countries.

13. DAC Members underline the need for aid agencies to help developing countries strengthen their analytical and management capacity to design and implement effective policies and programmes. DAC Members also recognise the need for greater participation by bilateral aid agencies in assisting developing countries in their efforts to improve their policies and programmes and providing the often costly preparatory analytical work. While multilateral agencies are well-placed to assist in this field, bilateral donors also have a role to play, especially at the level of sectors where they have special expertise to offer. DAC Members will review the need to strengthen their capacity to make contributions in this area.

14. DAC Members emphasise the need for continuing discipline by both recipients and donors in adhering to carefully appraised and productive investment programmes. Such programmes will provide a particularly useful basis for aid allocations if they have been the subject of careful review and discussion with donors with the help and advice of the international financial institutions. The regular review of these programmes offers an opportunity to examine progress and to consult on priorities. They are a good basis for aid co-ordination.

15. DAC Members acknowledge the desirability of providing adequate financing to developing countries undertaking effective policy reform efforts. This will often require making available quick-disbursing funds for the financing of urgent import requirements. Indications by donors of medium-term funding prospects will facilitate structural reform efforts and will in turn be facilitated by such efforts.

16. There is a need to put more emphasis, in the period immediately ahead, on rehabilitation and improved use of existing capacity. Programmes for these purposes will often have a higher priority than launching large new projects. DAC Members recognise the need to make realistic provision for recurrent cost and maintenance requirements but with agreement for step-by-step advance towards self-reliance.

17. DAC Members recognise the special merits of several donors working together with a recipient government in the co-financing of important projects and sector programmes. They will attempt to reduce administrative burdens by relying as much as possible for appraisal on a bilateral or multilateral lead agency.

18. Export credits may in selective cases be helpful also in the low-income countries but great care must be exercised to assure that development goals and the discipline of carefully appraised investment programmes are taken fully into account.

19. External debt servicing obligations have major financing implications for many countries. Debt relief exercises by the Paris Club should be based on full information of the nature and requirements of growth-oriented medium-term structural policy reform efforts.

ii) Further Steps to Improve Arrangements for Aid Co-ordination

20. DAC Members reaffirm their determination to co-operate closely with recipient countries, international institutions and other donors in international aid co-ordination arrangements working towards operationally relevant conclusions, based on genuine consensus.

21. DAC Members accept the need for close co-operation between recipient governments and the multilateral lead agencies but feel that the processes of consultation and co-ordination should provide an opportunity for bilateral donors to express their views during the formative stages of policy and programme consultations between recipients and the international agencies.

22. Full and frank exchanges of information on on-going and planned activities among donors, and between donors and recipients, are essential to the successful co-ordination and effective use of aid.

23. DAC Members appreciate the recent improvements in the organisation of Consultative Groups and Round Tables and invite the lead agencies to pursue their efforts in the following directions:

- Encouraging greater participation by bilateral donors in the consultations preceding Consultative Group and Round Table meetings making use of local groups where possible. Such participation is essential to ensure the emergence of a genuine consensus on recipient country development policies and programmes.
- Revising the format of Consultative Group meetings to facilitate more frank and substantive exchanges of views on key policy issues and problems; more careful review of recipient investment plans with a sharper focus on sectoral policies and investment programmes; fuller discussion of the aid implications of recipient structural adjustment programmes; and taking into account all elements determining recipients' overall financial situation, including trade prospects and debt service requirements.
- To be more concerned with the identification and programming of technical assistance needs and priorities which are often as important as financial needs. The UNDP has a special role to play in this regard and should participate fully in the Consultative Group processes.
- Recording of conclusions reached at Consultative Group and Round Table meetings, as summarised by the Chairman, in a detailed and action-oriented manner, and making them available promptly to interested parties including local co-ordination groups.
- Ensuring effective follow-up with respect to actions stemming from Consultative Group and Round Table meetings, specifically regarding donor statements of aid intentions and recipient statements of policy reform intentions through, inter alia, sectoral and other in-country meetings.

24. DAC Members are encouraged by the UNDP's recent progress in strengthening the Round Table process and enhancing its capacity to perform its co-ordination role more effectively through, inter alia: encouraging developing countries to participate actively; emphasis on policy reforms; the strengthening of UNDP staff; a more selective approach to the choice of countries and participants; improved analysis and in-country follow-up; better preparation and organisation of the Round Table meetings through closer collaboration with the World Bank; encouraging adequate representation by recipients and donors, and with UNDP chairmanship of the meetings. Round Tables can be further strengthened if, in the first phase of the process, UN specialised agencies can be represented by the UNDP and if DAC Members' representatives reflect this position in the appropriate bodies of the Specialised Agencies.

25. It was recognised that the second phase of the Round Table process, i.e. the larger and more open meeting at the country level, can be particularly useful in confirming the resolve of the government to push ahead with its adjustment policies by providing it with an opportunity to indicate its policy commitments in a broad setting. Donors in turn have an opportunity to announce their support for the programme.

26. DAC Members underline the need to strengthen aid co-ordination at the local (i.e. recipient country capital) level, and to establish stronger links between central and local co-ordination arrangements. Central co-ordination arrangements should give the lead to local and sectoral co-ordination, inter alia, by identifying issues to be addressed at the local/sectoral level. Policy dialogue should be an intrinsic element of aid co-ordination at the local/sectoral level. Recipient governments should be at the centre of the process. The participation of appropriate officials from the recipient government's line agencies is essential, but for decisions reached on sector aid policies or programmes it is important for the government's central finance and planning authorities to be involved.

27. There has been considerable expansion of local co-ordination activities recently. Progress has been made at the level of exchange of information, avoiding project duplication and promoting joint activities; but more needs to be done, especially relating aid to carefully appraised and reviewed investment programmes, and developing and implementing sector policies and programmes. DAC Members welcome the establishment of recipient-led local mechanisms for the purpose of ensuring more effective monitoring and co-ordination. Such local mechanisms need clear mandates.

28. DAC Members stress the importance of improved sectoral approaches, involving the preparation and support for carefully appraised investment and expenditure programmes taking capital and recurrent cost financing prospects realistically into account. There is also the need to explore prospects for more sector grouping of assistance (both technical and capital) to improve its efficiency, thereby also reducing administrative burdens all around through improved work sharing and harmonization of procedures. An important tool to achieve this objective is the use of aid co-financing arrangements.

29. DAC Members acknowledge the need for greater involvement of the regional development banks in policy dialogue and reform, particularly at the sector level, when they are important donors. It is important that they work within the macro-economic policy frameworks and co-operate closely with the World Bank or the UNDP, as appropriate.

30. Regional approaches to co-ordination, as they have been evolved particularly in Africa within the framework of CILSS/Club de Sahel and SADCC, looking at aid needs in a regional context and encouraging regional co-operation, can be an essential complement to country-level co-ordination.

31. DAC Members are fully aware of the need to avoid over-burdening the administrative capacity of recipients. While effective action to streamline the administration of aid will not be easy, they will seek opportunities to harmonize and simplify the requirements they exact on recipient governments, especially by making greater use of studies and reports already prepared by others or worked out by an agreed lead agency. This may entail modifications to legislative and administrative requirements.

32. DAC Members recognise the staff implications of improved co-ordination, particularly the need to have staff of appropriate economic and policy expertise in support of this function. Effective participation both in the policy dialogue and in aid programming at the local level will be facilitated by the presence of policy-oriented staff stationed in recipient countries in which individual Members have major aid interest. This may require strengthening the staff in the field, including the redeploying of some staff, adjustments in personnel training and recruitment policies and effective use of private expertise.

33. DAC Members underline the essentiality of strengthening developing countries' institutional capacity to design and implement effective policies and programmes and to manage their development processes. Competent central government institutions are essential to establish an effective policy framework, but broader institutional development efforts are required at all levels of government, including sectoral and local levels. These efforts should also take into account the capabilities and potential of the private sector and the requirements it has for institutional development to better enable it to make its full contribution.

34. DAC Members will take appropriate action within their own organisations to implement the principles set out above. They will from time to time take stock in the DAC of the progress being made.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 9, 1986

TO: Resident Representatives

FROM: Ernest Stern, SVP, Operations *ES*

SUBJECT: Aid Coordination

At the recent DAC High-Level Meeting, the attached "Guiding Principles for Aid Coordination" were adopted. Paragraphs 14-17 and paragraphs 25-27 are of particular relevance.

There was a good deal of discussion about the importance of local level coordination and its efficacy. There is broad support for strengthening and expanding local consultation mechanisms, in connection with supporting and monitoring adjustment programs and to assure a more disciplined adherence to agreed investment programs.

You should be aware of these "Guiding Principles", since the aid ministries agreed to transmit them to their respective field staffs, with instructions to adhere to them in their operations and in their participation in local coordination meetings.

There was extensive discussion of the role of local aid coordination. While most ministers noted the substantial progress that had been made, most also said that in many countries more could and should be done to develop an effective consultation process on the content of adjustment programs, their medium-term financing requirements and monitoring of progress. Most also emphasized the importance of more effective sector coordination.

The Bank, through its Resident Representatives, is seen as the principal agency for local aid coordination and we can expect donors, particularly the major ones, to monitor our efforts in this area carefully.

Attachment

AID FOR IMPROVED DEVELOPMENT POLICIES AND PROGRAMMES AND
IMPLICATIONS FOR AID CO-ORDINATION: DAC HIGH-LEVEL MEETING CONCLUSIONS

I. The Nature of the Problem

1. Much of recent DAC work has been concerned with the problems of adapting aid to support improved development policies by developing countries and the related problems of aid co-ordination. These problems were summarised in "Twenty Five Years of Development Co-operation: A Review" along the following lines.

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3. The funds made available from external sources vary greatly as to their financial terms and other conditions (procurement regulations, end-use controls, counterpart requirements, etc.). Donor preferences for particular sectors, projects and approaches are also often different. In addition, there are differences among donors in their willingness to provide certain kinds of aid, and in the degree of their involvement in managing the aid delivery process. Several donors maintain full-time field staffs in recipient countries to administer aid programmes. Others work mainly through resident diplomatic missions, augmented in some cases by regional aid offices and in all cases by visiting development specialists.

4. Adding further to the complexity of the aid process is the wide variety of needs for aid: to help finance capital projects in many different sectors involving different planning and executing agencies; to provide technical assistance for strengthening local management, research, training and other institutions; and to provide funds for essential imports, such as fuel, other production goods, spare parts and, in some cases, food.

5. To ensure that this complex process, involving divergent sources and diverse activities, interrelates effectively with the recipient country's own resources and programming processes requires an extraordinary organisational effort. Frequent donor-recipient consultations on policy and procedural issues are required to establish agreed purposes, approaches, administrative systems and supporting measures for each aid project or programme.

6. Aid effectiveness has been impaired in a number of instances where a recipient's limited planning or administrative capacity was unequal to the demands of aid management. In some cases the aid received may have been substantial in the aggregate but nonetheless short of the critical mass because of insufficiently concerted planning and concentration of resources.

7. Moreover, experience has shown that for aid to make a lasting contribution to the economic and social well-being of developing countries it must be concerned not only with the proper selection, design and implementation of individual projects and their economic and institutional sustainability but also with the support of broader sectoral and national efforts and policies.

8. Policy decisions cannot and should not be imposed from outside. Donors must strive to understand the political, institutional, economic and social considerations that affect the recipient's capacity to undertake policy adjustments. Closer working relations and co-operation are most likely to evolve from intimate donor knowledge of the political and socio-economic context of the recipient country and from the provision of aid on an increasingly assured, continuous and predictable basis.

9. For donor advice in the policy and programming dialogue to be credible, it must be consistent as well as competent and reflect full understanding of the variety of economic and other constraints facing the developing country. A profusion of conflicting advice from a multiplicity of donors can be counterproductive. Policy reform efforts are most likely to be fruitful when they are concentrated on key problem areas and when the responsible authorities -- central and sectoral -- assume responsibility for policy analysis and decisions. It is a basically unhealthy situation if developing countries have to rely heavily and repeatedly on donors to carry out their policy analyses and programme planning.

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10. It is against the background of the above considerations that DAC Members have, at their 1986 High-Level Meeting, adopted the following principles. These principles must be used flexibly to meet the diversity of specific situations; they apply mainly to developing countries which depend heavily on external assistance and need the support of international aid co-ordination arrangements to ensure effective use of resources. DAC Members recognise that developing countries themselves are responsible for setting their policies and priorities and that central responsibility for aid co-ordination lies with each recipient government.

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12. DAC Members recognise the importance of the World Bank/IMF-led process of working with developing countries in the articulation of structural adjustment programmes. They welcome the recent shift in the orientation of structural adjustment programmes toward growth. They agree that structural adjustment programmes should take fully into account equity and income distribution issues and would like to see more explicit addressing of budget

and strategy issues in human resources questions such as education, health and population, as well as environment. They note that structural adjustment programmes can make a contribution to creating the conditions which in the medium-term may encourage a resumption of private flows to developing countries.

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14. DAC Members emphasise the need for continuing discipline by both recipients and donors in adhering to carefully appraised and productive investment programmes. Such programmes will provide a particularly useful basis for aid allocations if they have been the subject of careful review and discussion with donors with the help and advice of the international financial institutions. The regular review of these programmes offers an opportunity to examine progress and to consult on priorities. They are a good basis for aid co-ordination.

15. DAC Members acknowledge the desirability of providing adequate financing to developing countries undertaking effective policy reform efforts. This will often require making available quick-disbursing funds for the financing of urgent import requirements. Indications by donors of medium-term funding prospects will facilitate structural reform efforts and will in turn be facilitated by such efforts.

16. There is a need to put more emphasis, in the period immediately ahead, on rehabilitation and improved use of existing capacity. Programmes for these purposes will often have a higher priority than launching large new projects. DAC Members recognise the need to make realistic provision for recurrent cost and maintenance requirements but with agreement for step-by-step advance towards self-reliance.

17. DAC Members recognise the special merits of several donors working together with a recipient government in the co-financing of important projects and sector programmes. They will attempt to reduce administrative burdens by relying as much as possible for appraisal on a bilateral or multilateral lead agency.

18. Export credits may in selective cases be helpful also in the low-income countries but great care must be exercised to assure that development goals and the discipline of carefully appraised investment programmes are taken fully into account.

19. External debt servicing obligations have major financing implications for many countries. Debt relief exercises by the Paris Club should be based on full information of the nature and requirements of growth-oriented medium-term structural policy reform efforts.

ii) Further Steps to Improve Arrangements for Aid Co-ordination

20. DAC Members reaffirm their determination to co-operate closely with recipient countries, international institutions and other donors in international aid co-ordination arrangements working towards operationally relevant conclusions, based on genuine consensus.

21. DAC Members accept the need for close co-operation between recipient governments and the multilateral lead agencies but feel that the processes of consultation and co-ordination should provide an opportunity for bilateral donors to express their views during the formative stages of policy and programme consultations between recipients and the international agencies.

22. Full and frank exchanges of information on on-going and planned activities among donors, and between donors and recipients, are essential to the successful co-ordination and effective use of aid.

23. DAC Members appreciate the recent improvements in the organisation of Consultative Groups and Round Tables and invite the lead agencies to pursue their efforts in the following directions:

- Encouraging greater participation by bilateral donors in the consultations preceding Consultative Group and Round Table meetings making use of local groups where possible. Such participation is essential to ensure the emergence of a genuine consensus on recipient country development policies and programmes.
- Revising the format of Consultative Group meetings to facilitate more frank and substantive exchanges of views on key policy issues and problems; more careful review of recipient investment plans with a sharper focus on sectoral policies and investment programmes; fuller discussion of the aid implications of recipient structural adjustment programmes; and taking into account all elements determining recipients' overall financial situation, including trade prospects and debt service requirements.
- To be more concerned with the identification and programming of technical assistance needs and priorities which are often as important as financial needs. The UNDP has a special role to play in this regard and should participate fully in the Consultative Group processes.
- Recording of conclusions reached at Consultative Group and Round Table meetings, as summarised by the Chairman, in a detailed and action-oriented manner, and making them available promptly to interested parties including local co-ordination groups.
- Ensuring effective follow-up with respect to actions stemming from Consultative Group and Round Table meetings, specifically regarding donor statements of aid intentions and recipient statements of policy reform intentions through, inter alia, sectoral and other in-country meetings.

24. DAC Members are encouraged by the UNDP's recent progress in strengthening the Round Table process and enhancing its capacity to perform its co-ordination role more effectively through, inter alia: encouraging developing countries to participate actively; emphasis on policy reforms; the strengthening of UNDP staff; a more selective approach to the choice of countries and participants; improved analysis and in-country follow-up; better preparation and organisation of the Round Table meetings through closer collaboration with the World Bank; encouraging adequate representation by recipients and donors, and with UNDP chairmanship of the meetings. Round Tables can be further strengthened if, in the first phase of the process, UN specialised agencies can be represented by the UNDP and if DAC Members' representatives reflect this position in the appropriate bodies of the Specialised Agencies.

25. It was recognised that the second phase of the Round Table process, i.e. the larger and more open meeting at the country level, can be particularly useful in confirming the resolve of the government to push ahead with its adjustment policies by providing it with an opportunity to indicate its policy commitments in a broad setting. Donors in turn have an opportunity to announce their support for the programme.

26. DAC Members underline the need to strengthen aid co-ordination at the local (i.e. recipient country capital) level, and to establish stronger links between central and local co-ordination arrangements. Central co-ordination arrangements should give the lead to local and sectoral co-ordination, inter alia, by identifying issues to be addressed at the local/sectoral level. Policy dialogue should be an intrinsic element of aid co-ordination at the local/sectoral level. Recipient governments should be at the centre of the process. The participation of appropriate officials from the recipient government's line agencies is essential, but for decisions reached on sector aid policies or programmes it is important for the government's central finance and planning authorities to be involved.

27. There has been considerable expansion of local co-ordination activities recently. Progress has been made at the level of exchange of information, avoiding project duplication and promoting joint activities; but more needs to be done, especially relating aid to carefully appraised and reviewed investment programmes, and developing and implementing sector policies and programmes. DAC Members welcome the establishment of recipient-led local mechanisms for the purpose of ensuring more effective monitoring and co-ordination. Such local mechanisms need clear mandates.

28. DAC Members stress the importance of improved sectoral approaches, involving the preparation and support for carefully appraised investment and expenditure programmes taking capital and recurrent cost financing prospects realistically into account. There is also the need to explore prospects for more sector grouping of assistance (both technical and capital) to improve its efficiency, thereby also reducing administrative burdens all around through improved work sharing and harmonization of procedures. An important tool to achieve this objective is the use of aid co-financing arrangements.

29. DAC Members acknowledge the need for greater involvement of the regional development banks in policy dialogue and reform, particularly at the sector level, when they are important donors. It is important that they work within the macro-economic policy frameworks and co-operate closely with the World Bank or the UNDP, as appropriate.

30. Regional approaches to co-ordination, as they have been evolved particularly in Africa within the framework of CILSS/Club de Sahel and SADCC, looking at aid needs in a regional context and encouraging regional co-operation, can be an essential complement to country-level co-ordination.

31. DAC Members are fully aware of the need to avoid over-burdening the administrative capacity of recipients. While effective action to streamline the administration of aid will not be easy, they will seek opportunities to harmonize and simplify the requirements they exact on recipient governments, especially by making greater use of studies and reports already prepared by others or worked out by an agreed lead agency. This may entail modifications to legislative and administrative requirements.

32. DAC Members recognise the staff implications of improved co-ordination, particularly the need to have staff of appropriate economic and policy expertise in support of this function. Effective participation both in the policy dialogue and in aid programming at the local level will be facilitated by the presence of policy-oriented staff stationed in recipient countries in which individual Members have major aid interest. This may require strengthening the staff in the field, including the redeploying of some staff, adjustments in personnel training and recruitment policies and effective use of private expertise.

33. DAC Members underline the essentiality of strengthening developing countries' institutional capacity to design and implement effective policies and programmes and to manage their development processes. Competent central government institutions are essential to establish an effective policy framework, but broader institutional development efforts are required at all levels of government, including sectoral and local levels. These efforts should also take into account the capabilities and potential of the private sector and the requirements it has for institutional development to better enable it to make its full contribution.

34. DAC Members will take appropriate action within their own organisations to implement the principles set out above. They will from time to time take stock in the DAC of the progress being made.

December 8, 1986

Mr. Husain

Shahid -

Re: Women-in-Development

Pursuant to your ^{2/4} memo of November 19, the President has decided to increase the staff of the Women-in-Development Unit in FY87 by adding two professionals and one secretarial positions. His office will advise PBD to authorize the necessary T-slots. This will be regularized in the context of the FY88 budget. Funding for the remainder of FY87 for these additional positions will be allocated to you by Mr. Ruddy. The full funding for this activity, including transfers made internally, should form the basis for the FY88 budget submission.



Ernest Stern

cc: MR. Ruddy
Mr Asanuma

OFFICE MEMORANDUM

TO: Mr. Willi Wapenhans, EMNVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Portugal - Public Enterprises

December 8, 1986

I read this report with interest and tried very hard to understand the rationale for its issuance and distribution. It clearly was not the dissemination of current information, since the work was started 3 years ago; it was not the expectation of impact on the Government, since we have not had a serious dialogue with the Government on this issue and the prospect of a loan has long since vanished; and it was not information to policy-makers, since the report piles annex on appendix on text in profusion.

I have previously urged the Region to exercise better control over its sector work. Another example of this type of misallocation of scarce resources was the Yugoslav Power Sector report---a document of inexcusable length for a borrower where implementation results have a very low probability of attainment. The attempt in the Portugal report to justify its issuance because of its general applicability is too feeble (and there are plenty of other examples around); obviously, that is not why the work was started. It is essential, in this period of scarce resources, that the Region improve substantially its control over the work program and over the issuance of ESW reports. There needs to be a substantial reduction in the work which is of interest to us but not to the borrower, and of work in countries where there is no effective policy dialogue. While I much prefer leaving these matters to Regional managers, such resource misallocation cannot continue. If present systems of determining priorities for allocation of resources cannot serve their purposes, we shall together have to establish more effective ones.

The report, while generally interesting, was unduly diffident in a number of areas and too verbose and imprecise in others. It is difficult to understand sentences such as "where these problems are too acute to be addressed through behavioral and real restructuring, they will need to be addressed through financial restructuring" (para 28). This confuses an expository taxonomy with the real world. It is equally difficult to understand the advocacy of debt financing over equity (para 34). Presumably, some discipline over the creation and perpetuation of public enterprises can be established by exposing them to the standard commercial discipline of appropriate debt-equity ratios.

The World Bank

ERNEST STERN
Senior Vice President
Operations

December 8, 1986

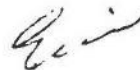
Mr. North

John -

Turkey Health Sector Review

While I could learn that Tekirdag has 1.9 beds per thousand population and that the nominal value of dental treatment increased twenty-fold, I could not find a table showing fertility declines which is needed to achieve NRR of 1 and the relation of present acceptor rates to such an objective. On the whole, I think that the more important datum is missing.

Twelve months after the mission seems a rather excessive time for the completion of the report.



cc: Mr. Husain

December 8, 1986

Mr. Robert B. Keating

Bob -

While attending the recent DAC High-Level meeting in Paris, I had the opportunity to meet with Mr. Trichet to discuss the Bank's role in the Paris Club.

As you know, the Bank has always been excluded from the executive session, and its participation is limited to the plenary meeting with its formal statement. The IMF on the other hand, is always invited to attend this executive session.

While there may have been a reason for this when Bank/IDA lending was smaller and project-based, the limited participation by the Bank in the Paris Club is now an anachronism.

The Nigeria case is, perhaps, the most current and relevant example. There would have been no program but for the Bank, and we played a major role in the negotiations with the commercial banks. To have the Bank excluded from the full deliberations of the Paris Club, after having led in all other phases of the Nigerian adjustment program, is particularly anomalous.

I asked Mr. Trichet to take the matter of Bank participation up with the other Paris Club members and stressed the following principal reasons:

- (1) The governments of the Paris Club members have been in the forefront in urging closer Bank/Fund coordination. It is difficult to understand how the same governments can be simultaneously opposed to full Bank participation in the Paris Club.
- (2) Many of the countries which come to the Paris Club are involved in Bank-supported adjustment programs. The Paris Club members are depriving themselves of the details of these programs, particularly as they relate to longer-term creditworthiness issues, and miss a frank presentation of any problems.
- (3) The Bank has become a major source of financial support for adjustment programs.
- (4) Each adjustment program has an associated financing plan in which debt rescheduling is an important component. The Bank has, therefore, a major interest in the terms of any rescheduling. It is essential that the rescheduling is seen in a medium-term perspective, particularly in Africa.

Mr. Trichet expects to consult with the other Paris Club members in the near future, and I would, therefore, appreciate it if you could contact your authorities in the next day or so and ask them to support full Bank participation in the Paris Club deliberations. As I mentioned to Mr. Trichet, in the absence of full participation by the Bank, we would plan to discontinue sending senior headquarter staff to the meetings and would rely instead on the Paris office to present the Bank's statement in the plenary session.



Ernest Stern

December 8, 1986

Mr. Paul Arlman

Paul -

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Ernest Stern

December 8, 1986

Mr. Jacques de Groote

Jacques -

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Ernest Stern

December 8, 1986

Mr. Timothy Lankaster

Tim -

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Ernest Stern

December 8, 1986

Mr. Gerhard Boehmer

Gerhard -

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A handwritten signature in cursive script, appearing to read 'Ernest Stern', written in dark ink.

Ernest Stern

December 8, 1986

Mr. Mario Draghi

Mario -

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Ernest Stern

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

URGENT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

Typewritten
Character
Must Fall
Completely in
Box!

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OF

OFFICIAL DEPT/DIV
ABBREVIATION

MESSAGE NUMBER

TEST NUMBER
(FOR CASHIER'S USE ONLY)

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HILTON INTERNATIONAL HOTEL, ISTANBUL, TURKEY

PLEASE PASS ON FOLLOWING MESSAGE TO WORLD BANK GUEST PAULA DONOVAN
(AAA) DRATELL URGENTLY REQUESTS COPY OF ES' DAC SPEECH FOR BANK'S
WORLD. DEADLINE IS TOMORROW. IS IT OKAY TO GIVE HIM A COPY? IS
VERSION ON MISS LAWRENCE'S MACHINE OKAY?

(BBB) 200 COPIES OF MEXICO MEDIUM TERM ADJUSTMENT PROGRAM PAPER
WERE DELIVERED, ACCORDING TO RAHKONEN AND REGION, AT YOUR REQUEST.
WHAT ARE WE TO DO WITH THEM?

(CCC) LOUISE FOX REQUESTS YOUR APPROVAL TO SCHEDULE ZAMBIA PFP
FOR DECEMBER 23 BOARD. SECRETARY FEELS THAT MOST EDS WILL BE AWAY
THEN. WHAT DO YOU THINK?

REGARDS, NONNA PONFERRADA

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22
END
OF
TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX	TELEX NO.: 22379	DATE: Dec 2, 1986
SUBJECT:	DRAFTED BY: : n	EXTENSION: 72004
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Diane Weatherford	
	DEPARTMENT: SVPOP	
SECTION BELOW FOR USE OF CABLE SECTION		
CHECKED FOR DISPATCH		

OFFICE MEMORANDUM

DATE: December 1, 1986

TO: Mr. Willi Wapenhans, Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: OMAN - Proposed Health Project

The above proposal is approved as outlined in the Decision Memorandum dated November 20, 1986, and related documents with the following comments:

- (a) As you will appreciate, the graduation policy will preclude Bank assistance for the envisaged follow-up project (Decision Memorandum, para 8), except possibly through reimbursable technical assistance. This makes it important to address longer-term issues to the fullest extent possible under this operation;
- (b) In this context:
 - (i) Since the proposed project supports the first phase of a national basic health care delivery system (BHCDS), the SAR should assess the financial and technical feasibility of its nationwide implementation by the target date of 1991. Depending on the outcome of the assessment, either the design or implementation schedule of BHCDS may need to be adjusted;
 - (ii) As part of the financial assessment of BHCDS, the SAR should analyze the adequacy of cost recovery and the advisability of establishing a revolving fund for replenishment of drugs and medical supplies. An acceptable cost recovery system should be agreed before Board presentation;
 - (iii) In addition, a dated covenant should be included in the legal documents for the completion of a manpower development program and phased staffing plan for the nationwide BHCDS; these should subsequently be reviewed and adjusted annually.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: December 1, 1986

TO: Mr. Willi Wapenhans, Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: PORTUGAL - Proposed Technology Education Project

The above proposal is approved as outlined in the Decision Memorandum dated November 18, 1986, and related documents.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: TOGO - Proposed Private Sector Development Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum of November 19, 1986, with the following comments/qualifications:

- (i) The forthcoming Structural Adjustment Credit will presumably deal adequately with the general incentive structure (e.g., export/import licensing, pricing, structure of tariffs, labor policy and tax code);
- (ii) The size of the line of credit should be based on a careful assessment of prospective demand, taking into account the small size of Togo's industrial and commercial sector and the liquidity of the banking sector;
- (iii) It is not clear why it should be necessary to undertake a study before developing a pilot scheme for lending to artisanal and micro-enterprises;
- (iv) In view of its importance for the success of the proposed project, the SME Cell should be established and staffed as early as possible in the project cycle;
- (v) The onlending arrangements from the Central Bank to the commercial and specialized banks should, of course, be in line with OMS 3.81;
- (vi) The technical assistance and training components should be fully appraised, so that their implementation can proceed expeditiously; and
- (vii) A quick-disbursing component is not appropriate for the proposed assistance to parastatal privatization. Moreover, in considering such an operation, the Region should ensure adequate consultation with IFC and should assess whether the operation should be included in this project or processed separately.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. Edward V.K. Jaycox, Vice President, ESA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: SOMALIA - Proposed Second Agricultural Extension Project

The above proposal is approved, based on the Decision Memorandum dated October 27, 1986 and related documents, with the following comments/qualifications:

- (i) The appraisal documentation should include a detailed statement of the way in which the lessons learned from the ongoing Agricultural Extension and Farm Management Training Project (Cr. 905-S0) have been incorporated into the design of the proposed project;
- (ii) Since projects of this nature would not normally have an adverse impact on the environment, there should be no need for a discussion of this issue in the SAR, unless there are exceptional circumstances which warrant it;
- (iii) The rationale for financing more than the incremental recurrent costs is not clear, particularly in view of the fact that this is a follow-up project and that vigorous efforts should be made to ensure project sustainability. The Region should, therefore, reconsider this issue and should also reconsider the decision not to transfer recurrent costs to the Government on a gradually-increasing basis;
- (iv) New arrangements should be discussed and agreed at negotiations to ensure the availability of agricultural credit after 1989 when the current arrangements are expected to expire (Aide-Memoire para 22);
- (v) If a national research program does not exist, the Government should formulate one which can serve as a basis for discussions with present and prospective donors and as a basis for the work programs of the regional research stations; and
- (vi) The actions proposed to ensure research/extension coordination should be spelled out much more clearly in the project appraisal documentation.

cc: Loan Committee

November 26, 1986

Mr. Knox

David -

We spoke about El Salvador.

I see no strong reason to use IDA. El Salvador is below the formal limit but well above the operational cut-off. Moreover, you are in the process of trying to justify lending to El Salvador on creditworthiness grounds this fiscal year. If we used IDA, we would establish a difficult precedent on how we respond to emergencies in otherwise ineligible countries.

However, as I mentioned, we are likely to get a \$ 200 million grant from Japan (\$ 40 million in their next fiscal year), and we have proposed to them that \$ 20-30 million be used for Earthquake Rehabilitation in El Salvador. This should help.



Ernest Stern

OFFICE MEMORANDUM

TO: Mr. S. Shahid Husain, OPSVP

November 26, 1986

FROM: Ernest Stern, SVPOP *ES.*

SUBJECT: Tax Policy for SSA

I have a number of comments on the paper, but I ran out of time to convey them in detail before my departure. Briefly:

- (a) This is not for the OVPs but for OPC. It is intended as a significant statement of policy.
- (b) Since it is intended as a major policy guidance, it would be useful to have both the Fund and ERS review this before we go forward and take their comments into account.
- (c) In light of both our views on zero protection in Africa, I was surprised to see your endorsement of it in this paper. Also, in SSA there are many imports of non-competing commodities. Is a revenue tariff a poor device in these circumstances?
- (d) I found the paper quite theoretical. It does not come down to the point that value added taxes may be the best that can be done in many countries until after a long exposition. The general treatment does not deal very much with administrative limitations and collection capacity.
- (e) Some of the comparisons seemed quite simple, e.g. the differences on p.7 between Africa and South Asia seem quite modest, particularly after taking export/GNP ratios into account. The discussion on pp.8-9 leaves one wondering about the definition of public consumption---presumably, it includes the huge growth in education expenses. Malawi is referred to 5-6 times. It is a very small example even if all the plans materializes. Does anybody now employ full expensing?
- (f) In short, if the policy message is right, I think it could be stated more clearly to provide staff guidance, and we need to get a thorough airing of the validity of the message.

Can we talk about this further after I get back?

The World Bank

Washington, D.C. 20433
U.S.A.

November 26, 1986

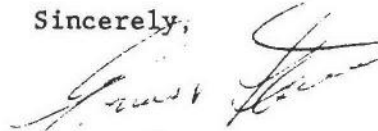
Dear Mr. Aberg:

Further to our discussion concerning the Fisheries Project in Yemen, I have now had an opportunity to review the situation which you raised during your recent visit here.

I understand, from my staff, that there is an ongoing technical dispute between the Government of Yemen and the consulting company responsible for the work. This is a dispute in which the Bank is not directly involved, and we therefore have not undertaken the type of detailed technical evaluation which would be required to form a judgment in this dispute.

I would like to clarify that, contrary to your understanding, the Bank has not carried out any technical review which found no fault with the work of the consultants. However, we have drawn the attention of both the Government and the consultants to the outstanding technical issues, and have urged that the parties reach an agreement as soon as possible.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. John Aberg
Deputy Minister of Foreign Affairs
Ministry for Foreign Affairs
Box 16121
S-103 23 Stockholm
Sweden

PD

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

November 26, 1986

Dear Manmohan:

P6

Thank you for your letter regarding Mr. Grewal.

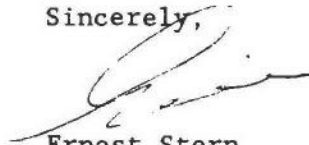
As you know, The World Bank generally hires people with some work experience. This is increasingly the case also for recruits to our Young Professionals Program, which is nevertheless Mr. Grewal's most likely employment opportunity within the Bank and IFC.

In any event, to avoid you having to convey this to him, I have asked my staff to contact Mr. Grewal directly, discuss his interests and advise on the best approach.

I hope all is well with you.

With best regards.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. Manmohan Singh
Deputy Chairman
Planning Commission
New Delhi - 110001
India

Y

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: GHANA - Proposed Petroleum Refining and Distribution Project

1. The treatment of the policy issues in this project (combined Issues Paper and Decision Memorandum dated October 30, 1986) creates serious doubts about the Government's commitment to a reduced role of the state in commercial activities and to holding state enterprises to commercial standards. Almost every issue in this area is decided in the opposite direction. These, it seems to me, need to be revisited. Specifically:
 - (i) Why should the Ghanaian Italian Petroleum Company (GHAIP) not set its refining fees on cost grounds? If it is inefficient by international standards, where is the action program to bring costs down? Under the current proposals, what happens if costs exceed the norms? Why should the private oil companies not be allowed to import and anti-dumping tariffs be used to protect against excessive short-term fluctuations?
 - (ii) With four international oil companies in the distribution system, why is there said to be a lack of "true" competition? What impedes it? Why should we accept distribution margins, further to be complicated by regional differences (para 10)?
 - (iii) What is now not known about pricing, if the study is due by December 31, 1986? If prices are not at international levels, that can be achieved by Board presentation, particularly if, as indicated in para 12, a general agreement on pricing principles is expected to be reached during negotiations. In any event, Board presentation for this standby project is five months after the completion of the pricing study;
 - (iv) Assuming the private oil companies can fix up their distribution stations by importing spare parts bought out of local profits, why should not the Ghana Oil Company (GOIL) be asked to do the same? Such rehabilitation hardly qualifies as a capital expenditure (para 16), and agreement on GOIL's ability to finance its own rehabilitation need not await agreement on a corporate plan. There must be some cash flow in GOIL and, thus, there is no

reason to provide project funds for this purpose. To use project funds to "get a handle on (GOIL's) financial restructuring" is not a very good reason for use of scarce IDA resources;

- (v) While I understand the Government's strategic concern about the refinery, I do not understand why this also applies to distribution. GOIL is obviously badly run. Why should it have 33% of the market? Why should it retain its depots? Why should it be responsible for new depots at Akosombo and Buipe? Even if the foreign oil companies are not willing to increase their investment, why not put these facilities under contract to them? Why should GOIL not be divested?
- (vi) Why should we allocate scarce IDA funds to GOIL in the absence of a corporate financing plan? While we are putting money in, the government continues to take money out. And, if that were not a sufficiently daunting juxtaposition, we are considering providing our funds as equity, instead of as a loan on commercial terms, for what should be a commercially viable operation; and
- (vii) Should not the possibility of short-noticed local competitive bidding be considered for the two items for which negotiated advance contracting is being proposed (para 18)?

2. The Green Cover should be submitted prior to negotiations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. Willi A. Wapenhans, Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES.*

SUBJECT: TUNISIA - Proposed Forestry Development Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum dated November 19, 1986, with the following comments/qualifications:

- (i) The plan for utilization of the national forestry resources should be prepared and discussed with the Government earlier than the fourth year of the project, so that it can be taken into account in the implementation of this project and in the preparation of the next five-year plan; and
- (ii) Prices of wood and wood products are understood to reflect international market conditions, and will presumably be kept under review by the Region to ensure that they continue to do so in the future.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: GUINEA - Proposed Health Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated November 11, 1986, with the following comments:

- (a) It is presumed that a significant effort has been made to exclude ongoing low-priority investments from the agreed three-year investment program and that donor financing for these investments will be reallocated to priority items in the program;
- (b) The dialogue with the Government and other donors to develop an appropriate national drug system should be an integral part of the project and should be pursued within an agreed time-frame;
- (c) While the proposal to permit health facilities to retain revenues will hopefully encourage cost recovery, it is important to ensure that effective arrangements are made for the adequate accounting and appropriate utilization of these revenues; and
- (d) The creation of fully operational units in MSAS responsible for planning, MCH/FP and training should be advanced if possible to avoid delays in project implementation.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 26, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES.*

SUBJECT: BURMA - Proposed Gas Development and Utilization Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated November 19, 1986, with the following comments:

- (a) As already agreed, the Burma lending program should be limited to one project a year. The FY87 project has been completed and there is no case for advancing this large project from FY88. In addition, co-financing should continue to be sought for this operation;
- (b) The pre-Board gas price increase should be a significant first step (at least one-third of the total increase required) toward reaching the objective of bringing prices in line with long-run marginal cost within three years. A second similar increase should take place by the end of the first year of project implementation;
- (c) Increases in gas prices should be passed onto final consumers;
- (d) A tight timeframe should be agreed for the proposed study and follow-up action to enable MOC to achieve full financial viability, and to make a reasonable contribution to its own investment requirements, within four years;
- (e) There should be agreement on the total government investment program in the gas sector. It is presumed that the proposed project would fit into any reasonable Gas Master Plan which, according to para 3 of the EPS, has yet to be prepared;
- (f) Detailed institutional development plans for MOC, including relating training programs, should be formulated and fully appraised before negotiations; and
- (g) The role of and potential scope for private distributors and retailers in the gas sector should be articulated in the project documents.

cc: Loan Committee

OFFICE MEMORANDUM

Date: November 26, 1986
To: Mr. Attila Karaosmanoglu, AENVP
From: Ernest Stern, SVPOP *ES* .
Subject: Designation of Authority

This is to designate you as Acting Senior Vice President, Operations and Acting Chairman of the Loan Committee, during my absence on mission from November 29 thru December 5, 1986.

cc: Mr. Scott, LEG
Mr. Stanton, EXC

/dpw

Date: November 26, 1986
To: Mr. Kunihiko Inakage, VPCOF
From: Ernest Stern, SVPOP
Subject: LDC Public Debt

At the Board yesterday there was a request for a note on the secondary market in LDC public debt. The interest is in the scale of the market, how it operates, the relevance of the price quotations (i.e., how large is the spread between bid and ask), and what is known about purchasers and sellers. The model referred to was the note on the Chile Debt Conversion.

Would you give some thought to what can be done, how we need to organize ourselves to do this and timing. Let's discuss when you are ready.

cc: Mr. Vibert

Date: November 26, 1986
To: Operational Vice Presidents
From: Ernest Stern, SVPOP
Subject: Complement Control - Grade 25 in Non-Operations

You will be interested in the attached response from Mr. Pajmans to some of the concerns expressed by us, which I conveyed to him. Para. 5 describes the trade-off between the ceiling and individual position justification. It seems a reasonable one.

Attachment

cc: Messrs. Golan/Chaurhill

ES:dpw

OFFICE MEMORANDUM

TO: Mr. Vinod Dubey, CPDDR
November 26, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Country Assistance Strategy Planning and Review

Thank you for your memo of November 18 on the Country Assistance Strategy Planning and Review process.

On the whole, I think the approach is reasonable and will help streamline the decision-making process regarding country strategies. However, it seems to me that, once this report is agreed, we can move straight to the formulation of an OMS and we do not need to consider a further final report before the OMS revision begins.

As to the report itself, it seems to me that we need to be more explicit about the relationship of the Country Strategy Paper (which will replace the CPP) to country strategy documents for Regional purposes. On page 2, we ought to note that under the CAM process, the Regions are supposed to be producing Country Assistance Strategy Briefs. If we have current strategy papers (CPPs or future CSPs), Regional strategy papers should provide annual updates of the agreed assistance strategy papers and should be derivatives of those papers. In a functioning system, those types of Regional papers should not be original initiating documents. While in certain Regions work is now in progress on country briefs and medium-term adjustment programs, the latter should feed into the preparation of Country Strategy Papers and the former should provide whatever additional detail is needed by the Region. While we can leave to the Regions the frequency and scope of any internal reviews other than those that are required for the CAM, we should also make it clear that these will, presumably, be infrequent.

The basic point is that the paper should describe the strategy process as it should operate and not merely describe the Country Strategy Paper as an addendum to numerous other strategy papers. Once the system is fully operational, there should be no need for the Regions to undertake major strategy reviews in the intervening period which do not lead to a Country Strategy Paper for review by senior management. It follows from this that we need not refer to medium-term strategy papers, such as those produced in the East Africa Region or LAC, as exceptions to the CSP. It is out of these analytical papers that the CSPs ought to come.

As to the frequency of review, I think the proposed approach is not fully adequate. I agree that the very small countries can be excluded, but it seems to me that the rule should be that very large borrowers, i.e. say those with borrowing programs in excess of \$ 500 million per year, should be on a no more than two-year cycle. That in turn means that others can be on a 3 or 4-year cycle. While we can leave it to the Regions to ask for an explicit postponement, I do not believe we want to suggest that postponement can take place because "little has changed". It seems to me that it is necessary for the Regions, and appropriate for senior manage-

ment to, at a minimum, revalidate every two years the lending strategy to its major borrowers, and no less than every 3 or 4 years the lending strategy for other countries. We also should consider introducing controls along the lines recently agreed for the debt review, i.e. make it clear that, in the absence of a current approved strategy paper, the Loan Committee would not consider loan proposals in the following fiscal year.

In the section on background in the CSP outline, we need to stress that a review of Bank assistance strategy should be in terms of the issues raised in the previous CSP discussion of Bank strategy. This may be the intention of the second paragraph in Section 2, but it is not very clear. This is the place where we should do what we promised that we would do in Country Economic Reports---namely, to define in what ways the country has made progress in improving its macro-economic management, has adhered to agreed adjustment programs, has implemented agreed policy changes and how, in general, it has performed in executing regular operations agreed with us and structural adjustment operations.

Regarding Bank assistance strategy, in the third paragraph of the section, we need to stress that the Regions ought to identify the monitorable decision points which would make them shift from one scenario to another. If we discuss alternative strategies, we need to be clear under what circumstances one of the alternatives is triggered.

Finally, the last paragraph on page 8 seems to be in error. While we do review country allocations at the semi-annual reviews, and limits are put on the lending programs of certain countries, upon the completion of the review, the Regions have substantial leeway in reallocating resources among their borrowers. This flexibility needs to be continued. Therefore, the CSP should recommend a lending level or range. Normally, this would then guide the allocation reviews. This would certainly be true on the Bank side; for IDA, the CSP decisions would be amended only if the total of the proposed amounts is in excess of availabilities.

cc: Mr. Husain

ES:n

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

ERNEST STERN
Senior Vice President, Operations

November 26, 1986

Mr. Stanton

Bill:

Attached is the monthly update of policy papers which I plan to forward over the next several months.

As you know, two of the papers listed (Transition Costs and Development and the Environment) are being prepared for the Development Committee discussions.

There have been no changes in the schedule since last month.



cc: Mr. Conable

Scheduled Distribution of Operations Papers 1/
to President's Senior Staff (PSS) for Review
(November 1986 - February 1987)
 (as of December 1, 1986) 2/

<u>Title</u>	<u>Expected Distribution Date</u>	<u>Distribution to the Board 3/</u>
The Bank's Approach to Subsidies	Mid-November	Late November (for information)
Financing of the Health Sector	Mid-December	End-December - Scheduled COW for January 27.
Transition Costs and Social Consequences of Stabilization and Adjustment	Early February	February 10, 1986 (Board Discussion - March 10)
Development and the Environment	Early February	(As above)
Policy Paper on Road Deterioration	Mid-January	February
Twelfth Annual Report on Project Implementation and Supervision	Mid-January	January (Board meeting scheduled Feb. 24)

1/ Papers which present new policy, elaborate upon or clarify existing policy, carry out review work of major Operational significance or have been requested by the Board.

2/ Next update January 9, 1986

3/ Normally the Board requires four weeks between the date of Board distribution and the discussion of policy papers.

The World Bank

Washington, D.C. 20433
U.S.A.

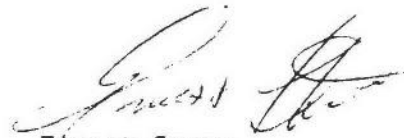
November 25, 1986

Dear Mr. Tammes:

Thank you for your letter following up on my discussions with your Chairman in May.

We are interested in assisting our borrowers to avail themselves of the discount on their debt. However, I have a number of reservations about your suggested approach which at first sight entails a World Bank guarantee of the entire discounted value of the debt and would relate our guarantee to existing commercial bank exposure rather than to new sources of funding. Nevertheless, we are interested in trying to develop proposals in the area of debt conversion and so I am asking the cofinancing staff to continue to work with Franz Van Loon to see if we can develop practical approaches and to try to bring them to operational fruition. Thank you for initiating this dialogue which I hope can be pursued.

With best regards.



Ernest Stern
Senior Vice President
Operations

Mr. Gerrit J. Tammes
Vice Chairman
NMB Bank
P.O. Box 1800
1000 BV Amsterdam
The Netherlands

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

November 25, 1986

Dear Mr. Bukman:

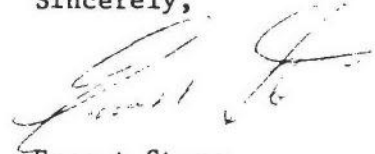
Thank you very much for your letter of November 6, 1986. As agreed during your visit to Washington last September, we have gone ahead with processing the special Netherlands' grants to Mali, Mauritania, Niger, Zambia, Zimbabwe, Egypt and Tunisia. For each grant, we prepared a grant agreement which serves as formal notification to the recipient government. The Bank, as administrator of the grants, signed these agreements on behalf of the Netherlands. We further prepared for each grant an administration agreement which the Bank and a representative of the Netherlands Embassy will sign. Once all documents have been signed by all parties, copies will be forwarded to your Ministry.

Attached is a statement prepared by the Bank's Loan Department showing the disbursements for six of the seven projects/programs during the last 12 months. The Agricultural Sector Loan for Tunisia is a new project which was recently declared effective. The first disbursements for this project will be made from the Netherlands' grant.

I trust that these arrangements meet your requirements for transferring the Dfl.100 million to the Bank's T-account at de Nederlandsche Bank.

Let me once again express our appreciation for the Netherlands' strong support of the Bank's cofinancing program.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. Piet Bukman
Minister for Development
Cooperation
Ministry of Foreign Affairs
P.O. Box 20061
The Hague, The Netherlands

OFFICE MEMORANDUM

TO: Mr. Barber B. Conable

November 25, 1986

FROM: Ernest Stern *ES*

SUBJECT: Women-in-Development

Attached is the status report you have been asking for. The recommendations are in para 11.

If you wish to create the new office in the current fiscal year, and prior to the completion of the reorganization, please let me know and have PBD allocate the two additional positions requested, plus one secretarial position. This would, of course, be a temporary addition of positions since they will be accommodated within the numbers agreed for FY88.

I included the two positions requested under "new initiatives" for FY88, but to date have no confirmation of either the FY88 position numbers or dollar budget. However, if we are close to the numbers we discussed then, I foresee no problem with either the allocation of the positions or the budget for the unit. If you decide to wait until the FY88 budget, we could start recruiting in April 1987.

Please let me know how you wish to proceed.

Approved for implementation
in FY87 : _____

Approved for Implementation
in the FY88 budget : _____

Disapproved : _____

November 25, 1986

Messrs. Golan
Churchill

Attached is a list of 30 staff members in EIS who have not completed their profile, including two Division Chiefs.

Mr. Paijmans' memo of November 14 is self-explanatory. This program is a Bank-wide one, intended to serve all of us in our personnel decisions, and there is no excuse for non-participation.

I would, therefore, like you to confirm to me, no later than December 22, that all the missing profiles have been submitted to you and that you have forwarded them to PMD. Please include in your memos the names of any remaining non-respondent.



Ernest Stern

cc: Mr. Weissman

OFFICE MEMORANDUM

DATE: November 24, 1986

TO: Mr. A. David Knox

FROM: Ernest Stern *ES*.

SUBJECT: Realignment of LAC Programs Divisions

2-1

1. The realignment you propose seems appropriate, except for the proposal to establish two Caribbean Divisions with a total of about 19 HL staff. Should we not take this opportunity to scale back our input to these small countries, which is high relative to that in other countries in the Region (these countries account for about 4% of the Region's population, 2% of the anticipated FY87-89 lending program, yet receive 12% of resources applied to LAC countries). I realize the small country phenomenon as well as the pressure to retain a full service Caribbean Consultative Group. Nonetheless, could you review with your Managers the input to the FY87 work program for these countries, separating lending, ESW, supervision and "other output" by Programs and Projects, to consider what future savings, particularly on the Programs side, may be feasible. As a separate matter you should also consider whether a single Division is not feasible. There are many countries but they are small and I am not convinced that a single Division, with an SCPO, could not handle the workload. Two Divisions require double the overhead. As to Venezuela, the transfer seems reasonable even if no additional staff is eventually allocated to the Venezuela program.

2. After you have reviewed the matter, could we get together to discuss it.



RESTRICTION NOTICE

Print Form

File Title Ernest Stern Chronological files (Economic Advisory) - Correspondence 60	Barcode Number 185035
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Document Date 11/24/1986	Document Type Office Memo
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Correspondents / Participants To William J. Cosgrove
From Ernest Stern

Subject / Title Mrs. Virginia Acio
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Exception Number <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D
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Reason for Restriction (a) Personal information relating to personal staff records (performance evaluations, AER, salary, etc.); medical information; CV's; consultant fees, etc.

The items identified above have been restricted 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 Tarsica Morgan	Date 6/2/2011
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OFFICE MEMORANDUM

TO: Mr. Willi Wapenhans, EMNVP November 24, 1986

FROM: Ernest Stern, SVPOP *ES*.

SUBJECT: Syria - Gas Appraisal and Petroleum Engineering Project

There are very few comments on the project itself, and these will be conveyed in the usual way.

However, there is a serious problem regarding continuation of our lending to Syria, in view of its poor creditworthiness. As you know, Syria is rated as a III-B country, and this means that there should be no lending unless there is substantial progress in the management of the country's economy which will help improve repayment prospects. This cannot be said to be the case in Syria. While paras 16-17 indicate very briefly some of the measures which would enable Syria to grow more rapidly while restoring a balance in its external accounts and the government budget, none is agreed or is under serious implementation. This issue is of serious concern to the Loan Committee and has been raised in particular by Finance.

Complicating the matter in Syria is the fact that payments due us are now 105-day overdue. Our normal procedure for shorter-duration overdues is to continue to process projects in the expectation that the country will shortly remedy its overdue situation. But, where a country is so close to non-accrual status, and with no sign of willingness and ability to pay, I think it would be a mistake to follow our standard practice to proceed to negotiations.

On the more basic issue of long-term creditworthiness, we need an analysis of the situation from the Region before we can proceed with a loan of this size. The analysis should focus explicitly on Syria's medium-term capacity to repay, as well as on measures necessary to improve its creditworthiness. We shall then need to see some progress on the implementation of such measures before we could resume lending at a significant level.

cc: Mr. Rotberg
Mr. Qureshi o/r
Mr. Shihata
Mr. Husain

ES:n

OFFICE MEMORANDUM

Date: November 24, 1986

To: Mr. S. Shahid Husain, OPSVP
Mr. G. Edward Schuh, AGRDR

From: Ernest Stern, SVPOP *ES*

Subject: Development of Rainfed Agriculture

I have just read the symposium proceedings on the Development of Rainfed Agriculture. It is an excellent document and, despite its length, worth reading. Session V, based on Gale Johnson's paper, and Ed's own summary are particularly good.


Have we sent this to the Board? If not, would not a special distribution be warranted, drawing attention to these two sections?

Our agriculture staff must get a lot of support from such symposia. They seem more focussed and structured, and of greater professional depth, than what is available in other sectors. But I may not be as well informed about the others.

OFFICE MEMORANDUM

Date: November 24, 1986

To: Mr. John D. North, PHNDR

From: Ernest Stern, SVPOP 

Subject: Financing Health Services in Developing Countries:
An Agenda for Reform

1. This is an excellent paper. I suggest you proceed with distribution to the OPC for review on December 10.

2. In addition, there are three points for consideration:

- a) The use of "poor" and "rich" is quite undefined. That is, I believe, appropriate since we cannot give a general definition. However, it would be useful to note, in the summary and early in the text, that these categories need to be defined in each country in light of its income structure and social objectives.
- b) The administrative limitations, particularly in low income countries, require more explicit mention. They will be a serious constraint for several of the proposals.
- c) The section on Bank lending (p.120) is weak and confusing. I do not know what is meant by the reference to "lending directly for financing-related activities" nor why it should become prominent. I do not understand the suggested link to adjustment lending. Is this intended to be fashionable? To assure PHN staff that they have a role in adjustment lending? To say these health financing issues should become conditions? Is the reference to financing "such basics as..." a way of saying we should do more recurrent cost financing? What is the presumed distinction between a health sector adjustment loan and a health sector loan? Surely the intention is not to use these changes to justify a loan for general imports. The non-lending section of Chapter 3 loomed a lot more familiar to me than what is said on the same subject in the summary. The latter needs to be brought into conformance with the text.

4. Finally, some of the boxes seem very long and we might see whether they can be condensed.

cc: Mr. Husain (w/o attachment)

The World Bank

Washington, D.C. 20433
U.S.A.

November 24, 1986

Dear Cesar:

I am sorry it has taken a while to get back to you on your report but times have been a little hectic. In any event, we had already discussed the principal points. However, I am glad to be able to report now that neither my colleagues nor I have any additional substantive points which we feel we need to bring to your attention. This, as you will understand, does not mean we agree with every point, or the way it is expressed--the report represents your views, not ours.

I would appreciate it if you would put the report in final and send it to me. The report is, as you know, the property of the Bank and should not be released by you to others.

We appreciate your work on these complicated matters. They will be of help to us, as the way in which we work on the debt problem evolves.

With best regards,

Sincerely



Ernest Stern
Senior Vice President
Operations

Mr. Cesar Virata
C. Virata and Associates
Makati CC P.O. Box 1600
Development Academy of the Phils. Bldg.
San Miguel Avenue, Pasig
Metro Manila, Philippines

November 24, 1986

Mr. Conable

Barber:

Although you will be away when Mr. Mobutu comes to Washington you may be interested in the attached report of our recent mission. Thus far it is not clear that Zaire will return to its adjustment program, so laboriously constructed with them.

Attachment

To: Executive Directors and Alternates

From: Ernest Stern, Senior Vice President, Operations

Subject: Fisheries Development

Executive Directors asked to be advised of the outcome of the consultation meeting on Fisheries Development. Attached, for information, is a report on the meeting of donors on their aid activities in the fisheries sector held in Paris, October 13-15. The meeting was chaired by Mr. Schuh, Director of the Agriculture and Rural Development Department.

Attachment

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: CHINA - Proposed Wujing Thermal Power Project

The above proposal is approved, based on the parameters outlined in the revised Executive Project Summary submitted under cover of your memorandum of November 17, 1986.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: GUINEA-BISSAU - Proposed Population, Health and Nutrition Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum dated November 18, 1986, with the following comments/qualifications:

- (i) The reorganization plan for the Ministry of Public Health (MOPH) should be prepared and discussed as early in the project cycle as possible, so that it can be implemented quickly. The Region should also consider requesting the Government to take some of the steps toward reorganization earlier than effectiveness (e.g., creation and staffing of planning and evaluation unit, separation of primary health care (PHC) management from hospital management);
- (ii) The timetable for formulating the national drug and nutrition policies should be advanced, if at all possible;
- (iii) If the recommendations of the Government and WHO on reform of the drug procurement, storage and distribution system are already available, as is implied in the EPS, the action plan for their implementation should certainly be prepared earlier than proposed;
- (iv) The share of the national budget to be allocated to MOPH should not be set at a particular level regardless of revenues accruing to it from cost recovery; rather, it should be based on an assessment of MOPH's plans and needs, taking into account other Government priorities as well as its potential revenues; and
- (v) The technical assistance and training programs should be fully appraised, so that their implementation can proceed expeditiously.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: PHILIPPINES - Proposed Provincial Ports Project

The above proposal is approved as outlined in the Decision Memorandum dated November 11, 1986, and related documents with the following comments/qualifications:

- (a) Clarification of PPA's status as an autonomous agency should be a condition of Board presentation at the latest;
- (b) Although improved efficiency, better maintenance, and the financial viability of PPA are listed as key objectives, the documents contain little detail on how these objectives are to be achieved. Specific action programs, including appropriate upfront measures, to address each of these issues should be discussed and agreed at negotiations;
- (c) To ensure adequate availability of local funds both for the proposed project and future works, targets should be established for internal cash generation and financing capital expenditures. The reasons for regarding a maximum operating ratio as the most suitable financial covenant (Issues Paper, para 4) are not clear;
- (d) It is presumed that the various staffing issues highlighted in the Project Brief dated December 1985 have been resolved. Any outstanding action on key posts should be taken before Board presentation;
- (e) Detailed engineering of project works and preparation of bidding documents should be substantially advanced before Board presentation; and
- (f) Both the early introduction of periodic safety inspection of older passenger vessels, and elimination (except for spot checks for smuggling) of Customs involvement in domestic trade, seem to be desirable objectives to pursue in the context of this operation.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Wilfried P. Thalwitz, Vice President, WAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: GUINEA-BISSAU - Proposed Population, Health and Nutrition Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary submitted under cover of your memorandum dated November 18, 1986, with the following comments/qualifications:

- (i) The reorganization plan for the Ministry of Public Health (MOPH) should be prepared and discussed as early in the project cycle as possible, so that it can be implemented quickly. The Region should also consider requesting the Government to take some of the steps toward reorganization earlier than effectiveness (e.g., creation and staffing of planning and evaluation unit, separation of primary health care (PHC) management from hospital management);
- (ii) The timetable for formulating the national drug and nutrition policies should be advanced, if at all possible;
- (iii) If the recommendations of the Government and WHO on reform of the drug procurement, storage and distribution system are already available, as is implied in the EPS, the action plan for their implementation should certainly be prepared earlier than proposed;
- (iv) The share of the national budget to be allocated to MOPH should not be set at a particular level regardless of revenues accruing to it from cost recovery; rather, it should be based on an assessment of MOPH's plans and needs, taking into account other Government priorities as well as its potential revenues; and
- (v) The technical assistance and training programs should be fully appraised, so that their implementation can proceed expeditiously.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: CHINA - Proposed Wujing Thermal Power Project

The above proposal is approved, based on the parameters outlined in the revised Executive Project Summary submitted under cover of your memorandum of November 17, 1986.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 21, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: PHILIPPINES - Proposed Provincial Ports Project

The above proposal is approved as outlined in the Decision Memorandum dated November 11, 1986, and related documents with the following comments/qualifications:

- (a) Clarification of PPA's status as an autonomous agency should be a condition of Board presentation at the latest;
- (b) Although improved efficiency, better maintenance, and the financial viability of PPA are listed as key objectives, the documents contain little detail on how these objectives are to be achieved. Specific action programs, including appropriate upfront measures, to address each of these issues should be discussed and agreed at negotiations;
- (c) To ensure adequate availability of local funds both for the proposed project and future works, targets should be established for internal cash generation and financing capital expenditures. The reasons for regarding a maximum operating ratio as the most suitable financial covenant (Issues Paper, para 4) are not clear;
- (d) It is presumed that the various staffing issues highlighted in the Project Brief dated December 1985 have been resolved. Any outstanding action on key posts should be taken before Board presentation;
- (e) Detailed engineering of project works and preparation of bidding documents should be substantially advanced before Board presentation; and
- (f) Both the early introduction of periodic safety inspection of older passenger vessels, and elimination (except for spot checks for smuggling) of Customs involvement in domestic trade, seem to be desirable objectives to pursue in the context of this operation.

cc: Loan Committee

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: November 19, 1986

TO: Mr. Barber B. Conable

FROM: Ernest Stern *ES*

SUBJECT: Bank Treatment of Subsidies

Members of the Board have asked for a statement explaining the Bank's position on subsidies, which could be used by them for public information. The attached note has been prepared by the Country Programs Department, OPS, and reviewed by the OVPs.

It is not intended as a statement of policy, nor as an economic analysis of all aspects of subsidies. This is made clear in the introduction. Rather, the note explains how we apply our policy on subsidies and the issues we look at in reaching judgments in the course of our operational work. I believe that it provides a useful explanation.

Unless you wish to discuss this paper--which I do not recommend, since it involves no new policies or decisions--we would forward it to the Board for information. Should a sufficient number of EDs wish, we would be willing to arrange for a discussion of the paper.

We would also welcome, of course, any comments by the other recipients of this memo by c.o.b. December 1, so that they can be taken into account before the paper is issued.

Attachment

cc: Mr. Qureshi
Mrs. Krueger
Mr. Paijmans
Mr. Shihata
Mr. Thahane
Mr. Botafogo
Mr. Stanton

PD

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

November 18, 1986

Dear Mr. Schnieders:

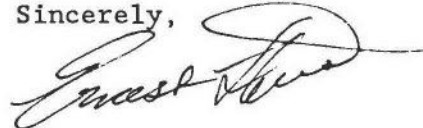
Thank you for your letter of November 13, 1986. I was pleased to learn that the Federal Republic of Germany will establish a consultant trust fund, which will enable us to utilize additional consultant services from Germany.

The December seminar, aimed at familiarizing the German consulting industry with new trends in Bank lending, which may affect the composition of our demand for consultant services, is something we are glad to support. Mr. Kiermayr is planning to join you in Frankfurt for this, as you requested.

I am sure our technical staff here in the Bank have benefitted from the presentations given by the experts of VUBI's various member firms. I trust that they found the exchange of experience with our staff equally useful.

My thanks again for the enjoyable luncheon.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. Jens Schnieders
President
Verband unabhängig beratender
Ingenieurfirmen e.V. Bonn
Postfach 12 04 64
Winston Churchill Str. 1
5300 Bonn 1
Federal Republic of Germany

The World Bank

Washington, D.C. 20433
U.S.A.

November 18, 1986

Professor Gustav Ranis
Department of Economics
Yale University
Box 1987, Yale Station
27 Hillhouse Avenue
New Haven, CT 06520-1987

Dear Gus,

Thank you very much for sending me your article on Latin American Debt and Adjustment, which I read with great interest. I agree with almost everything you say, up to page 12.

The only exception is that I do not believe you are right in saying that the programs now being negotiated do not focus explicitly on a medium-term adjustment program. I enclose, for your information, two documents, which the Mexican Government presented to the banks. While there has been extensive interaction between the Bank and the Mexicans through economic and sector work and discussions, the program decisions incorporated in these reports are clearly the Mexicans' own decisions. The program, plus the actions already taken by the government, clearly involve a major restructuring of the economy, including a substantial liberalization of imports; a major reduction in quantitative restrictions; a reduction in tariffs; a reduction in the role of the public sector, already evidenced by the closure and sale of a number of enterprises, both small and large; restructuring of support prices and decontrol of prices, and a much more open approach to private investment.

I think these measures, and others, which the Mexicans have taken, are very different from anything that was done in the period from 1982-85, and it is these measures that hold out the prospects for a medium-term work-out program. I think, therefore, that it is not accurate to say that everybody is just doing business as usual---although, I agree that much time was lost between 1982-85 in not focusing on these fundamental structural problems.

Second, as you know, the Mexican program is getting a substantial amount of external support, including support from us. We are planning on \$ 2.3 billion of net disbursements for Mexico in the two-year period, which compares to \$ 400 million as a recent annual average. Commercial bank financing, in terms of new money, will be on the order of \$ 6.5 billion, if we assume that the oil contingency is not triggered. While one could always argue that more external resources are necessary or desirable, these amounts are not insignificant, and one has got to recognize that adding debt for Mexico is something that needs to be done rather carefully if, over time, the debt service burden is to be reduced.

When you turn to how the process is to be managed in the future, I find you a good deal less persuasive. There are also a few factual problems. As to the latter, the paragraph at the bottom of page 12 is beside the point. There are no World Bank-chaired Consultative Groups for any of the countries in Latin America---the only exception is Colombia, but that was converted some time ago from a donors meeting to consultation with the banks and, in any event, has not met recently. I think you are also out of touch with the evolution of Consultative Groups in Africa, where the bulk of them are. They certainly have gone well beyond the stage of a polite exchange of position papers. They have grown into a much more coordinated approach in support of adjustment programs based on careful review of public investment programs and agreements with donors to limit their financing to agreed investments. They are supported by a lot of country coordination activity. But let me not dwell on that, since Africa is not the topic of your paper.

I agree, of course, that the basic proposition cannot be simply that the World Bank is a much nicer place than the Fund and, therefore, the Bank can be more effective in helping with the debt problem. And you are right that the Bank has to take the lead in helping define a medium-term adjustment program which tries to match the objectives of growth with a steady reduction of the debt service burden. This is precisely what we are trying to work out in most of these countries, and with some success. The changes that have to be made are not easy, but I do not believe that a review of the record suggests that our desire to be "loved" has driven our lending programs.

To take one example outside of Latin America: Yugoslavia, where, after an initial effort at financing an adjustment program, our lending program has dropped to virtually nothing because it is clear that the Government is not proceeding with the program. We have long since grown out of a posture where we are willing to substitute increased project lending for the incremental resources necessary to support an adjustment program, if there is no agreement on such a program. Lending programs in several countries testify to that.

Having spent some substantial portion of my time recently on the negotiations with Mexico and Nigeria, which, by the way, is the most recent country undergoing major structural changes, I am convinced that the country assessment teams that you have in mind cannot serve as an efficient approach to the problem. It is, of course, a nice thought that one might simplify the process---and indeed it badly needs simplification. But the fact of the matter is that the major players are many.

The banks are not a homogeneous group and both international organizations, i.e. the Fund and ourselves, must, of course, keep in mind that what is necessary is to raise the incremental resources from the private sector. The Paris Club, although consisting of official agencies, also has a life of its own. An independent team assessing growth requirements would not have any more credibility with the banks, nor would it make it any easier

domestically for a government to take the measures that are necessary to reform the policy framework, since growth requirements cannot be set independent of resource availability. Indeed, it seems to me that the most likely outcome is a report by such a team which none of the parties is willing to accept. It would thus introduce another layer of discussion and confusion among the negotiating entities.

The country has to prepare its medium-term framework, not outsiders; the banks must make their own decisions because no outsider can (or should) guarantee the results; and the international agencies must assess the program in terms of its realism and not in terms of its normative desirability.

I agree that developing countries cannot be expected to put up with declining levels of per capita income over a long stretch of time, but I do not think that that fully describes the problems these countries face. In most cases, it is not difficult to construct a scenario of growing per capita incomes while at the same time reducing the debt service burden. The problem is, however, that in such scenarios per capita consumption declines because of the need to increase domestic savings, including exports. What is much more difficult is to have a growth rate of per capita income which is sufficiently high to permit a growth in per capita consumption despite the need for increased domestic savings.

Finally, a word about incremental resources. It is quite true that nobody can argue that the amounts mentioned in Secretary Baker's speech by themselves will be adequate. But, neither do I think one can argue that they are inadequate. The problem here is more complicated, too, than it seems. First of all, the Baker speech dealt only with two sources of financing---the multilateral institutions and the commercial banks. There are clearly other important sources of external capital, such as the export credit agencies, private capital flows, and the reversion of flight capital. For instance, in the case of Mexico, on top of the substantial amount furnished by the World Bank and the commercial banks, the Government of Japan has committed \$ 1 billion of export credits which will disburse rapidly, and a quarter of which is untied, in a joint financing arrangement with the World Bank to support Mexico's export efforts. And, as we have seen in other countries, as well as in Mexico, an appropriate approach to interest rates and exchange rates are important first steps in reducing and eliminating capital flight and, in some cases, even to start a return flow. Relaxing restrictions on foreign investment, and a framework which ensures a reasonably stable economy, and where the adjustment effort is growth-oriented, also may be expected to have reasonable results. If we add these other sources to the numbers mentioned by Secretary Baker, the potential resource flow looks more reasonable.

Second, I would stress what I noted before that, although additional capital is necessary, we must be careful in looking at the capacity of these countries to service additional capital. It is unrealistic to design scenarios which stimulate growth but require such levels of capital inflows that the reduction in the debt service burden is pushed out far into the future. That too will create, it seems to me, an unsustainable situation. OECD countries will not continue to grow at a steady rate, commodity prices

will continue to change, interest rates will not remain stable, etc., and the indebted countries will be vulnerable to these changes. We must, therefore, try to ensure that capital is adequate to sustain a growth-oriented adjustment program which not only seeks to accelerate growth from its present unacceptably low level, but also has as its objective throughout the adjustment period, to reduce the debt service burden.

Sincerely,



Ernest Stern
Senior Vice President
Operations

OFFICE MEMORANDUM

TO: Mr. S. Shahid Husain, OPSVP

November 18, 1986

FROM: Ernest Stern, SVPOP *ES*SUBJECT: Paper on Managing Net Disbursements

I agree that no special guidelines are needed on this subject. However, before sending this paper to the OVPs, I would like to share with you some textual comments for consideration and ask for some additional data which might be useful.

- (1) Regarding the data in Annex II, I am surprised that it covers both IDA and Bank borrowers in the same set. This reaction is based on my hypothesis that the growth of amortization payments takes an increasingly larger share of gross disbursements, which makes the net margin more volatile. The aggregate data on para 8 of Annex I supports this. For instance, in 1975 amortization payments equalled 14% of gross disbursements; in 1985 this had risen to 30%. Annex I provides the data to review the impact of the growth of amortization on the volatility of net disbursements at the country level. Since this factor plays only a minor role for IDA countries, it would, therefore, be useful to focus on Bank countries only or to split the sample.
- (2) The period for analysis covers divergent trends and it might, therefore, be useful to take a look at two sub-periods---1975-80 and 1980-85. Quick-disbursing adjustment lending played no role in the first period and the expansion of Bank lending did not yet have an impact on amortization payments.
- (3) Still on Annex II, I believe that listing Mexico, Yugoslavia and Kenya as "active adjustment borrowers" (para 3) is inaccurate. Mexico borrowed nothing for adjustment, unless we count the Export Development Loan; Yugoslavia had one SAL, and Kenya's program came to a halt.
- (4) The text gives the impression, in several places (e.g. paras 15-16), that stabilizing net disbursements means increasing disbursements. This is not the point. Managing for more stable net disbursements involves considering the interaction between the volume and composition of commitments, amortization, and gross disbursements over an extended period. It could affect the balance between quick-disbursing adjustment loans and project loans; it can equally affect the composition of project lending (e.g. 70% of loans in hydropower development versus a more balanced mix). It may also affect the time-phasing of commitments---i.e. how much of a standby program gets pulled forward to meet a regional objective at the expense of variability in a country's commitment level. The paper (para 10) poses the management question but drifts off principally into a discussion of how to increase disbursements.
- (5) If we were to start para 11 with the penultimate sentence, the objective would be in better perspective.

- (6) I am not sure I understand the taxonomy in para 8. In the first category, we seem to give undue weight to the disbursement objective. Why should we act only on the basis of an active policy dialogue? And, in what way could we act to increase disbursements at that stage? In category three, why doesn't an exclusively project-based lending program permit a smoothing of disbursement flows? It should. Why would the only measure be fast-disbursing operations to raise the down-swing? Such a country must be poorly managed (or our disbursements wouldn't be significant to its balance of payments) and, in that case, must pose creditworthiness problems. Volatility could be reduced, for instance, by slowing down commitments.
- (7) You may wish to review para 15 to make sure that this cannot be read as advocating sector loans regardless of the solidity of the adjustment program.

cc: Mr. Dubey

November 21, 1986

Mr. Derbez:

I want to let you know that both Mr. Conable and I thought you did a superb job yesterday in presenting the Chile loan. Your answers were complete, lucid and effective. A very professional performance.

Mr. D.E. Derbez
Country Programs Department 1
Latin America and the
Caribbean Region

cc: Mr. Knox

ES:dpw

Date: November 18, 1986
To: All SVPOP Staff
From: Diane Weatherford, United Way Coordinator
Subject: United Way

The United Way Campaign is now well advanced and a small number of you have not yet contributed. I know you are all very busy so its not surprising that some of you may have "put aside your envelope" to take care of later and then forgotten about it. I just wanted to point out that if you do intend to contribute, you should do so very soon especially if you are going to contribute through payroll deduction since the closing date for entry in the raffle is November 26.

/dw

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CHOSUN HOTEL, SEOUL, KOREA

PLEASE PASS FOLLOWING MESSAGE ON TO WORLD BANK GUEST KHALID IKRAM.
 HAVE HEARD NOTHING SO FAR FROM THE THREE PUBLIC KOREAN BANKS I
 MENTIONED TO YOU, INCLUDING FOREIGN EXCHANGE BANK. HAVE ASKED
 PARK AND HE HAS CONTACTED HOME TWICE BUT HAS NOT COME UP WITH ANY
 USEFUL INFORMATION. PLEASE CONTACT EITHER GOVERNMENT OR BANKS
 TO FIND OUT WHY DECISION SO TARDY. NEED TO KNOW WHEN THEY ARE
 LIKELY TO INFORM COMMERCIAL BANK STEERING COMMITTEE IN NEW YORK,
 WHICH SHOULD BE SOONEST, AND CONTENT OF THAT DECISION. TELEX ME
 WHEN YOU HAVE INFORMATION. REGARDS, ERNEST STERN

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CLASS OF SERVICE: TELEX	TELEX NO.: K28432	DATE: Nov 18, 1986
SUBJECT:	DRAFTED BY: EStern:n	EXTENSION: 72004
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Ernest Stern	
	DEPARTMENT: SVPOP	

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OFFICE MEMORANDUM

DATE: November 17, 1986

TO: Mr. Harinder S. Kohli, Director, ITF

FROM: Ernest Stern, SVPOP *ES.*

SUBJECT: Implementation of Bank/IFC Information Security Committee

In response to your request that I nominate a representative from Operations to the Information Security Committee, I am asking George West to take the assignment. As Acting Data Administrator and a member of the Operations IRM Committee, he will be able to fully coordinate the work of the Information Security Committee with Operations.

cc: Messrs. Martijn Paijmans, VPAVP
David Hopper and George West, ASNVP
Program Coordinators in Operations

OFFICE MEMORANDUM

TO: Mr. Wilfried Thalwitz, Vice President, WAN

DATE: November 17, 1986

FROM: Ernest Stern, Chairman, Loan Committee *ES*SUBJECT: MALI - Proposed Office du Niger (ON) Consolidation Project

The above proposal is approved as outlined in the Decision Memorandum dated November 7, 1986 and related documents, with the following comments/qualifications:

- (a) Although the reasons for the delay in the proposed Public Enterprise Rehabilitation (PER) Project are not explained, it would seem preferable to defer amendments to ON's status until the proposed new legal framework for public enterprises has been enacted. In addition, maintaining the "linkage" between the two projects could conceivably expedite the processing of the PER operation;
- (b) The Region's proposal to condition this operation on the adoption of full price and market liberalization for the rice sub-sector is endorsed;
- (c) The Issues Paper indicates that the strengthening of ON's organization and staff, and the divestiture of some responsibilities, have both started. It is presumed that detailed action plans will be agreed during negotiations for the continuation and completion of these two programs within an appropriate time frame;
- (d) While the consolidation of the force account maintenance unit is acceptable, this should be done in a manner which would not preclude eventual divestiture;
- (e) The proposal to finance non-incremental recurrent costs is not accepted. Such financing should not be necessary if public finances are being adequately managed. It is not desirable to incur debt for standard budgetary expenditures. Required budgetary allocations for these expenditures should be agreed at negotiations;
- (f) Compliance with performance objectives should be a condition for continued disbursement of the entire Credit, not only certain categories of it as proposed; and
- (g) The size and composition of ON's total investment program should be agreed at negotiations. This will provide the basis for the proposed annual reviews of the program and facilitate donor coordination.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 17, 1986

TO: Mr. Xavier de la Renaudiere, Director, SOA

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Long-Term Perspectives Study for Sub-Saharan Africa

1. I refer to your memorandum of October 17 which raises a number of budgetary issues in connection with the Long-Term Perspectives Study for SSA. I have the following points:

- We will make a budget transfer to you of \$200,000 at this time. This will cover a significant part of the financing gap;
- I think the proposed budget is little excessive, especially in regard to travel, and should be pruned back by around \$25,000;
- I would like to see the Africas and AGR make a greater contribution to the study. If it is worth supporting, which I believe it is, the regions should be willing to make a significant contribution. A contribution of \$50,000 equivalent (cash or staff time) from each unit seems reasonable. You should only pay compensation if and when any unit exceeds this amount;
- You should explore with VPCOP the possibility of tapping available (and free) tied consultant funds. I understand that Mr. Kiermayr has confirmed that the Dutch will pay the fees associated with Mr. van der Tak's assignment and that other financing agencies may be willing to pick up the tab for some of the industrial development/financial work. Clearly, you will need to draw up detailed terms-of-reference for each of these assignments so that COF have something concrete to work on;
- If, at the end of the day, there is still a financing gap because, for example, it is not possible to use available (free) consultant funds (since they are tied and perhaps inappropriate), I will consider increasing our contribution; and
- I agree to your carrying Robert Maubouche on a T-slot for up to 8 months. After that time, you should either be in a position to offer him a permanent slot or he will have to return to Western Africa.

cc: Messrs. Jaycox, Thalwitz, Husain, Kiermayr
Ms. Lowndes (to make \$200,000 transfer)

OFFICE MEMORANDUM

TO: Mr. Wilfried Thalwitz, Vice President, WAN

DATE: November 17, 1986

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: BURKINA FASO - Proposed National Agricultural Research Project

Normally, the Project Brief need not be attached to the EPS. There seemed to be no need for it in this case. The above proposal is approved, based on the parameters indicated in the Executive Project Summary dated November 10, 1986, with the following comment:

- o The EPS rightly places emphasis on the importance of improved research-extension links and donor coordination, but is not clear on how the project will contribute to these objectives. This should be given close attention in the design of the project and spelled out in the documents. A broad agreement with donors on the organisation and strategy of research as the framework for future assistance should be a condition of Board presentation.

cc: Loan Committee

The World Bank

ERNEST STERN
Senior Vice President
Operations

11/17

Barber -

I think this letter a bit unfortunate. There is no such thing as separate and non-fungible items in a budget under preparation.

We could have kept pressure up by not accepting until the IDA deal had been struck.

I hope everyone in Japan is told of our understanding how we will use this money. You certainly are on record in promising that our lending will support growth oriented adjustment. How a loan to Bolivia would do that; or to El Salvador for reconstruction, is a mystery to me.

Ernie

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

TO: Mr. Edward Jaycox, ESNVP

November 17, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Lending Program

Based on our recent review of the lending program, I believe it is warranted to reduce your IDA allocation for the time being. IDA resources are, as you know, exceedingly scarce, and it is not obvious that, in the face of major potential shortfalls, all of the funds should be available for reallocation within the Region. The Region's standby program is small and a substantial portion of it is in the same countries which are likely to have a shortfall.

The current allocation for Eastern and Southern Africa is SDR 600 million; the revised allocation is SDR 500 million. This will not affect processing of projects in the current program in any way. I will review the situation with you at mid-year before reaching any decisions on reallocation to other Regions.

The major shortfalls which are probable include two projects in Kenya (SDR 31 million) and in Ethiopia, the Livestock Project (SDR 42 million), with little prospect of bringing in the Peasant Agriculture Standby (SDR 57 million). The Zaire program (SDR 109 million, including standby) will have to be reviewed based on the Government's recent decisions. The Sudan program cannot be expanded under current circumstances and, depending on circumstances, may not be fully implemented. The Uganda program (SDR 71 million, including standby) is too large, given present policies. It is possible that the amount would be warranted, and content will change, after your January visit but, given Uganda's poor performance, I do not believe that we should make commitments in advance of extensive policy changes, or without the participation of other donors. A program in excess of SDR 71 million seems, therefore, improbable.

Assuming that there still is a basis for half the planned program in Zaire, an allocation of SDR 500 million will enable you to complete the full lending program, including standbys, listed in the November 1 MIS run, and to review the situation about the middle of January.

ES:n

OFFICE MEMORANDUM

TO: Mr. Wilfried Thalwitz, WANVP

November 17, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: PIR

I want to congratulate you and your staff for an excellent PIR. The description of the linkages among work for structural adjustment is first rate, as is the analysis of costs and procedures in adjustment lending.

The planned review of ongoing projects is a very desirable step. It seems to me that, increasingly, adjustment programs should be accompanied by a review of our lending to eliminate or restructure projects which are no longer consistent with revised priorities and resource availabilities. This advice, which we give to other donors, also needs to be applied more rigorously to our own portfolio.

cc: Mr. Husain

ES:n

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FOR WAIDE. AS OF THIS MORNING LOCAL TIME, NOTHING HAD BEEN HEARD
FROM EITHER BANK. COMMERCIAL BANK STEERING COMMITTEE TRYING
URGENTLY TO REACH TARGET NECESSARY FOR IMF APPROVAL PRIOR TO
WEDNESDAY BUDGET PRESENTATION BY MEXICO FINANCE MINISTER TO
PARLIAMENT. CAN MALHOTRA HAVE ANOTHER GO? REGARDS, STERN

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CLASS OF SERVICE: TELEX	TELEX NO.: 3161493	DATE: Nov 17, 1986
SUBJECT: MEXICO	DRAFTED BY: EStern:n	EXTENSION: 72006
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Ernest Stern <i>[Signature]</i>	
	DEPARTMENT: SVPOP	
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OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: CHINA - Proposed Wujing Thermal Power Project (Power VI)

1. The Loan Committee is unable to approve the above proposal on the basis of the EPS submitted under cover of your memorandum of November 7, 1986. The EPS should be revised to cover at least the following issues:
 - (i) The institutional capacity of the Shanghai Electric Power Corporation (SEPC) for project implementation and maintenance;
 - (ii) SEPC's present and prospective financial position, and the scope for SEPC participation in project financing;
 - (iii) The onlending arrangements for the funds to be made available by the Bank and by the Shanghai Municipal Government;
 - (iv) The nature of the public health and environmental issues to be addressed and the measures envisaged for addressing them; and
 - (v) the scope and timing of the training program.
2. The revised EPS should be resubmitted to the Loan Committee in due course.

cc: Loan Committee

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. Willi A. Wapenhans, Vice President, EMENA

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: YAR - Proposed Sana'a-Hodeidah Road Rehabilitation Project

The above proposal is approved, based on the parameters indicated in the Executive Project Summary dated November 6, 1986, with the following comments/qualifications:

- (i) A section describing the sectoral context for the project should have been included in the EPS to give the Loan Committee an idea of the major issues facing YAR in the transport sector;
- (ii) The actions required to achieve the policy objectives of the project outlined in para. 4 of the EPS (e.g., fuel pricing, vehicle taxation, liberalization of the road transport industry, etc.) should be discussed and agreed with the Government during appraisal;
- (iii) The technical assistance and training components of the project should be fully prepared by appraisal, so that their implementation can proceed in a timely fashion; and
- (iv) The project appraisal documentation should include an explicit statement on past progress in road maintenance funding and operations and a monitorable program of actions for the future concerning resources to be allocated to maintenance and measures to further improve maintenance operations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. A. David Knox, Vice President, LAC

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: MEXICO - Proposed Urban Transport Project

The above proposal is approved as outlined in the Decision Memorandum dated October 31, 1986, and related documents with the following comments:

- (a) Agreement should be reached at negotiations on the total urban transport expenditure plans in the project municipalities, taking into account the difficult budgetary situation. The existence of an adequately funded and administered road maintenance program should be ensured. This agreement will provide the starting point for the proposed Bank review of annual road maintenance programs and major new investment projects. Disagreement over major new projects should be grounds for suspension of the total Bank loan;
- (b) The need for and scope of the various proposed studies should be reviewed. Even where studies are deemed to be imperative, interim actions should be identified and agreed where appropriate as in the case of bus tariffs, where initial adjustments should be a pre-Board requirement. Specific dates for completion of studies and implementation of their findings should be agreed at negotiations;
- (c) A firm plan should be agreed at negotiations and initiated by Board presentation to eliminate the subsidies of the public bus companies within two years. This is essential to ensure fair competition and to encourage the development of the private sector. It is not appropriate to make initiation of this program a disbursement condition;
- (d) The Region should consider using commercial banks rather than BANOBRAS as the channel for loans to private bus operators. If this is not feasible, on-lending arrangements from BANOBRAS need to be tightened up; interest rates should be at a premium over ACF and repayment periods appropriately short. The disposition of funds following repayment to BANOBRAS also needs to be determined. These terms and conditions should be finalized before Board presentation;
- (e) It is surprising that a pilot maintenance facility for private bus operators is considered necessary in Mexico. If maintenance standards are a concern, inspection of vehicles should be made more rigorous; and

- (f) The reason for the proposed high Bank contribution of 87% to the Federal sub-project is not explained. This will need to be substantiated in the project documents.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. A. David Knox, Vice President, LAC

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: MEXICO - Proposed Ports Rehabilitation and Equipment Project

The above proposal is approved, based on the parameters indicated in the Executive Project Summary dated November 11, 1986, with the following comment/qualification:

The four-year comprehensive investment plan for the port subsector to be agreed upon during appraisal should include a clear and monitorable maintenance program for port facilities and equipment and a training program for port personnel.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, EAN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: CHINA - Proposed Gansu Provincial Development Project
(Basic Education Component)

The above proposal is approved as outlined in the Decision Memorandum dated November 4, 1986, and related documents with the following comments:

- (a) Although I have recently agreed to the proposal that the three proposed sectoral operations in the Gansu Province should be combined into a single project, I want to reiterate that this was strictly on an exceptional basis. Please ensure that this is clearly understood by both the Government and Regional staff; and
- (b) In view of the decision to proceed on this basis, the provincial context of the project needs to be clearly established. The Region should satisfy itself that the Province's total programs in the three sectors are sound and financially realistic, taking into account the resource constraints in the Province. The fact that each of the sub-projects may only be part of the total programs does not alter the need for this assessment. The Region's proposal to agree on key sector policy actions is endorsed.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 14, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: NEPAL - Proposed Sunsari Morang Irrigation II Project

The above proposal is approved based on the parameters indicated in the Executive Project Summary dated October 31, 1986, with the following comments:

- (a) To provide the sectoral framework for the project, the appraisal mission should evaluate the Government's total expenditure program for the irrigation sector and its financing, with attention to the balance between new construction, rehabilitation, operation and maintenance. The program should be discussed and agreed with the Government during negotiations, and annually during project implementation;
- (b) Detailed plans, including related training programs, to strengthen O & M in both the stage I and stage II project areas should be formulated and fully appraised before negotiations. Agreement should be reached during negotiations on these plans as well as on phased plans to improve the level and collection of water charges. Progress in implementing these various plans should be reviewed annually;
- (c) Poor collection of water charges in the past is frequently attributed to unreliable supply of water. Collections in the stage I area where physical works have been completed should, presumably, now improve significantly. This should be reflected in the performance indicators to be established for purposes of the annual reviews. It is presumed that necessary arrangements are now in place to organize water users' groups and to empower them to facilitate adoption of rotational water supply practices;
- (d) Any retroactive financing under the proposed project should be limited to essential preliminary expenditure on new works. It should not exceed the normal ceiling of 10% of the Credit and should not include any financing of maintenance of stage I investments. The Region should ensure that O & M requirements for stage I works have been fully absorbed into and are being regularly met from the Government budget. IDA disbursements for O & M costs for stage II activities should be linked to the timely provision of the Government's share of these costs;

- (e) The project financing plan should be completed before Board presentation; and
- (f) Non-compliance with audit requirements has been a persistent problem in Nepal. Audits for all irrigation projects should be current before this project is presented to the Board.

cc: Loan Committee

OFFICE MEMORANDUM

DECLASSIFIED

APP 11 2011
CONFIDENTIALWRG ARCHIVES
November 14, 1986

TO: Mr. Barber B. Conable

FROM: Ernest Stern *ES*

SUBJECT: Lending Program

I have completed a review of our lending program, as of November 1, with the Regional Vice Presidents. Two features are very clear:

- o the FY87 program continues to deteriorate in terms of processing objectives;
- o the \$ 15 billion Bank lending level, which was previously characterized as "most probable", should now be seen as a likely maximum. The "most probable" estimate, based on current country performance, is about \$ 14 billion.

The difficulties in processing reflect increasing problems in countries not adhering to agreed adjustment programs and in reaching agreement with governments on such basic issues as tariffs and prices. We also are seriously under-budgetted for the expanded work program in Latin America.

Major country problems related to Bank lending are in

Brazil. At present, we envisage a lending program of barely \$ 1 billion. Emerging macro-economic problems, and the absence of a program to deal with them, makes further adjustment lending unlikely. Since discussions on prices and tariffs are not possible in face of the price freeze, processing of six sector loans has been postponed. It is hoped that a different policy will emerge after the November 15 elections---if it does, perhaps, some of the adjustment lending can be salvaged.

Colombia. The new economic team is still finding its feet, but early indications are not good in terms of adherence to previously agreed adjustment programs. A lending program of about \$ 300 million, compared to \$ 600-700 million in the past, is all that is likely.

Egypt. If agreement on policy reform is reached soon, a substantial increase in the lending program is warranted. But, if decisions are delayed much longer, our support will come in FY88 and the FY87 program will be held to the agreed level of \$ 150-\$200 million.

Romania. Again, no lending is envisaged.

- Syria. Problems of arrears, failure of debt reporting, and pricing and tariff issues afflict this program. Early solution seems unlikely.
- Yugoslavia. There is no progress on the adjustment program or on project decisions. The probable outcome is a one project lending program.
- India. A variety of problems will probably lead to a reduced lending program. These include slow disbursements and, hence, the need for more advanced preparation before Board approval; environmental and resettlement problems which have tied up several power projects; and tariff issues. Bank lending was projected at \$ 1.8 billion but is not likely to exceed \$ 1.5 billion.
- Ivory Coast. Agreement on an agricultural sector loan (\$200 million) in this fiscal year is doubtful.

On the IDA side, while all available funds are likely to be utilized, some reallocation between countries and, possibly, regions may be desirable at mid-year. The Bangladesh program is being delayed by lack of action on restoring the credit system; the program in Zaire is in doubt because of the President's recent announcement reversing most adjustment measures; the current situation in Sudan does not warrant a significant lending program, and agreement in Ethiopia required for a major agricultural project also seems elusive.

cc: Senior Staff



RESTRICTION NOTICE

Print Form



File Title Ernest Stern Chronological files (Economic Advisory) - Correspondence 60	Barcode Number 1850385
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Document Date 11/14/1986	Document Type Memo
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Correspondents / Participants
To Mr. Xavier de la Renaudiere

From Ernest Stern

Subject / Title
DAC Material

Exception Number
 1
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 10 A-C
 10 D

Reason for Restriction
(a) Personal information relating to personal staff records (performance evaluations, AER, salary, etc.); medical information;
CV's; consultant fees, etc.

The items identified above have been restricted 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 Tarsica Morgan	Date Jun 2, 2011
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The World Bank
Washington, D.C. 20433
U.S.A.

November 14, 1986

Mr. Jean-Claude Trichet
Inspecteur des Finances
Ministere de l'Economie, des Finances
et du Budget
Service des Affaires Internationales
93, rue de Rivoli
75056 Paris R.P., France

Dear Mr. Trichet:

I plan to visit Paris on December 1 and 2, for the meeting of the Development Assistance Committee, and would welcome an opportunity to discuss the role of the Bank in the Paris Club, and related matters, with you at that time.

I would be especially interested to learn your views on the appropriate level of Bank representation at the Paris Club, if its members wish to continue to limit the Bank's participation in its meetings to the plenary sessions. In our view, if this is the case, it would seem to be more cost-effective for us to revise our representation and rely more on the staff of our Paris office for formal presentations of our views.

As you know, over the past several years, the Bank has taken a number of steps to bring our participation in the Paris Club more closely in line with the leading role which the Bank is playing, in association with the IMF, in the design and financing of economic adjustment programs in heavily-indebted member countries. In consultation with you and your predecessors, the level of our representation was substantially strengthened and, at the request of the Club, we agreed to make presentations on a selected group of countries of particular interest to the members.

Although we have taken these steps, and governments have expressed a growing interest in a coordinated approach to growth-oriented adjustment programs in which the rescheduling activities of the Paris Club play a vital role, the Bank's participation in the Club is still restricted to the plenary sessions. The subsequent deliberations concern countries' capacity to repay debts which are rescheduled over an extended period, and we believe that the Bank has a unique contribution to make in the evaluation of the medium-term growth and creditworthiness prospects of these countries.

The Bank has played a major role in the design of appropriate economic adjustment programs and their financing in many of these countries. In several -- Nigeria is the most prominent recent case -- the Bank has worked with the Fund on the design of macroeconomic policy changes and advised the Government directly on the management of its debt and external borrowing. However, we believe that our current restricted participation in the Paris Club prevents us from contributing effectively to the deliberations of its members, and is not consistent with the Bank's lending role in the adjustment process.

I hope it will be possible for us to meet during my brief visit to Paris.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", written over a horizontal line.

Ernest Stern
Senior Vice President
Operations

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

ATTENTION—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

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INTBAFRAD
NEW DELHI, INDIA
FOR WAIDE
MANY THANKS FOR YOUR HELP ON MEXICO. ALSO WAS APPRECIATIVE OF
MALHOTRAS INTERVENTION. REGARDS, STERN

END
OF
TEXT →

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: **LT** TELEX NO.: **3161493** DATE: **11/14/86**

SUBJECT: **MEXICO** DRAFTED BY: **EStern:dpw** EXTENSION: **72004**

CLEARANCES AND COPY DISTRIBUTION: AUTHORIZED BY (Name and Signature):

E. Stern

DEPARTMENT:

SVPOP

SECTION BELOW FOR USE OF CABLE SECTION
CHECKED FOR DISPATCH

November 14, 1986

Kim:

Just to confirm what I told you the other day regarding the President's trip.

The Rome-Zambia-Kenya-Tanzania itinerary is acceptable. He needs a full rest day and a working day in Rome. He would be prepared to go Kenya-Zambia-Tanzania if there were no conflicts with the SADC meeting. But, since he does not want to go on the field trip before the speech, this would also lead to an unduly protracted stay in Kenya. So we'll plan on the Zambia-Kanya version.

Ernie

Date: November 13, 1986
To: Mr. Eugenio F. Lari, EM1DR
From: Ernest Stern, SVPOP
Subject: PDRY: Greater Aden Water Supply Project
Request for Supplemental Credit

It must set some kind of record to ask for a supplemental within two weeks of a Board presentation. I suppose there was no possibility of ascertaining the Arab Fund's position earlier.

Under the circumstances I agree you should proceed as recommended. The supplemental is to be funded out of the Regional IDA allocation which has this amount unallocated at present.

cc: Mr. Wapenhans o/r

OFFICE MEMORANDUM

DATE: November 13, 1986

TO: Mr. David Knox, Vice President, LCNVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Budget Supplement

1. Thank you for your note of November 3 indicating the programs that you intend to reactivate or expand as a result of recent developments. I agree that you should proceed with some of these programs and that the mid-year would be the appropriate time to supplement your budget. I will then be in a position to judge relative priorities and to assess the total demand on our contingency. Be assured that I will try to provide the bulk of the additional funding needed for LAC.

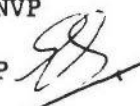
2. However, there are several points in the requirements listed about which I am not sure:

- a) While a trade policy loan for Venezuela may eventually emerge, it seems to me rather early to dedicate significant staff resources to it. It is not clear what the Country Economic Mission will find, which will determine the macro-economic issues to be dealt with. Depending on what they are, and their severity, Venezuela's appetite for an adjustment related loan may well diminish. I would, therefore, hold any permanent staffing decisions in abeyance;
- b) As to Suriname, I do not recall a discussion on resumption of lending. No doubt per capita income will have decreased as a result of the decline in oil revenues but, as we all know, per capita income is not the sole trigger for graduation either way. What is the case for resuming lending in the face of the generous, long-term Dutch commitments?;
- c) I would certainly not conclude (as you do on the top of page 2) that, in the absence of incremental resources, we should cut ESW for Argentina, Colombia and Brazil; and
- d) I assume the cost of the Mexico mission, which is not mentioned, will be taken care of internally for FY87.

cc: Mr. Gregory

OFFICE MEMORANDUM

TO: Mr. David Knox, LCNVP

FROM: Ernest Stern, SVPOP 

SUBJECT: MEXICO - \$ 1 Billion B-Loan

November 13, 1986

Re your note of November 6.

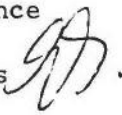
I have no objection to adding the Highway Loan if it causes no complications with the documentation. If it does, do not push it. We knew the loan was coming and, in these commercial dealings, we cannot afford constant after-thoughts.

As to the rest, it is broadly okay, but let us remember that it is only a guarantee. What we should, or should not do, derives principally from what the lenders want us to do. So far, no one has asked us to supervise the loan or offered to pay for it. Our only obligation, thus far, is to make sure that the money goes for the broad purposes intended. A second basis for involvement is that we do not want to undermine policies agreed with us. That certainly leads us into sub-project selection criteria. But how much we need to get into procurement and disbursement issues, I must leave to you. The paper strikes an acceptable balance on these issues but, perhaps, doing more on the procurement and disbursement side than strictly necessary. I certainly see no need to ask for a PCR, since we will have audits.

OFFICE MEMORANDUM

DATE: November 10, 1986

TO: Mr. Moeen Qureshi, SVP, Finance

FROM: Ernest Stern, SVP, Operations 

SUBJECT: Operations Representative on the Finance Committee

This note confirms that in keeping with our past practice, we have rotated Operations' membership on the Finance Committee, as indicated below. The timing of future changes in representation is intended to facilitate continuity in membership. Since the committee deliberations will, in future, be the final opportunity for Operations to provide its views on issues being considered by the Committee, I have also designated a backup Operational Vice President to attend any Committee meeting which cannot be scheduled to permit the attendance of either of the designated members from Operations.

<u>Member</u>	<u>Term Expires</u>
S.S. Husain	June 1987
K. Inakage	June 1988
W. Wapenhans	(Backup)

cc: Messrs. Husain
Inakage
Wapenhans

PDonovan:ml

The World Bank

ERNEST STERN
Senior Vice President
Operations

11/11

Mr. Kucera

Perm

11-81
11/11/66

I have no problem with
the proposed approach, but
I do not believe the letter
very suitable.

First, we are in fact extending
the time period given in the
August cable but we have no
credit facilities. Why not say
we recognize the difficult
circumstances etc. and in
light of this, and the recent
agreement with the IDB,
we ~~will~~ are prepared to
allow some additional
time to cure the problem.

Our interest is not in negotiation
but in having the problem
resolved. Therefore, as a first
step, abstain from ^{new} commitments.
But basic problem also needs
to be resolved. Therefore ...

OVER

Second, the tone of the letter is quite abrasive and abrupt. Hardly the tone to take if relations are strained.

Third, to ask for an Action Plan by Sept 15 or Aug 27 seems quite unrealistic. Institutions do not react that fast. If this chronology became public the Board would say, rightly, that we were being unreasonably demanding.



The World Bank

ERNEST STERN
Senior Vice President
Operations

November 11, 1986

Mr. Conable

Barber -


Would you call James D. Robinson, Chairman and CEO, American Express Bank ((212)640-5620) re Mexico. Their share is about \$ 80 million. He has met with the Mexicans (Gurria) and has been called by Citibank, but, thus far, has not agreed to come in. It is important that they come in---and soon.

A handwritten signature in cursive script, appearing to be "Ernest Stern", located at the bottom right of the page.

OFFICE MEMORANDUM

DATE: November 10, 1986

TO: Mr. C. David Finch, Director, Exchange & Trade Relations, IMF

FROM: Ernest Stern, Senior Vice President, Operations 

SUBJECT: Paper on Fund Program Design and Criteria

Thank you for your memorandum of November 6.

It would generally be helpful if adequate time were allowed for review of documents and the preparation of comments. Perhaps it might be possible to send us a draft for comment before it has been approved by your management, if you are pressed for time.

Even though the paper has already been approved by your management, let me suggest a few points for your consideration.

- On page 14, I think it is worth noting that the terms for the growth facility were less favorable to Mexico than the terms of the new money facility. This point would seem to be of particular relevance, since you address the question of additionality on page 26.
- As to additionality, you might make it clearer to your readers than the paper does on page 15, that Mexico loses the present value equivalent (about 20%) of the guarantee amount in net Bank disbursements. This is in addition to the cost of the harder terms.
- The footnote on page 14 fails to note that the employment generation effects and the spillover to the private sector are criteria established by the commercial banks -- not by the Bank. The fact that these have to be projects in areas of ongoing World Bank programs is not a generic point, but is required because of the guarantee.
- The phrase "additional guarantees" (line 7, first para., page 15) may not be clear, since the rest of the program has not been described. The Bank's guarantee should be described (here or at its first mention) as a non-accelerable guarantee, payable at final maturity.
- I am not sure what the fourth and fifth sentences of the first paragraph on page 15 mean. World Bank loans are always made in the context of specific projects or well-defined programs. However, the relevance of this to the next sentence is not clear. The problems with the growth contingency in the Mexico case were that:

(a) the commercial banks have one definition of objectives (footnote page 14), but the Fund has another (page 11 -- an increase in foreign exchange earnings or reduction of foreign exchange costs); (b) in our view it is quite unrealistic to expect significant disbursements or stimulation effects in the program period, even assuming the projects have been identified in advance; (c) there is no assurance that projects in areas already covered by World Bank operations are, in fact, the highest priority projects for additional funding; and (d) there is no realistic link between these additional projects and the objectives of the adjustment program. It seems to me that these concerns are not fully captured by the last sentence of the paragraph.

-- At the end of the second paragraph on page 15, it would be appropriate to add words along these lines, "However, because of this provision, the World Bank, in its telex accompanying the term sheets, alerted the commercial banks that if there is a substantial reduction in new money commitments beyond the repayment of the oil contingency, the World Bank reserves the right to also reduce its planned commitments. This was done to protect the overall distribution of new commitments agreed in the financing package as between private and official creditors."

Finally, it is a pity that you do not indicate that contingencies are not favored by the commercial banks; it might even be accurate to say that they are disliked. This could fit in well with the paragraph on page 26, which discusses the Fund's role in concerted lending. My own impression is that the contingencies made agreement with the banks very much more difficult -- though I do not question that both contingencies were considered very important by the Government.

cc: Messrs. J. de Larosière, Managing Director, IMF (o/r)
R. Erb, Dep. Managing Director, IMF (o/r)
Robert Brown, IMF

The World Bank

ERNEST STERN
Senior Vice President
Operations

November 10, 1986

Mr. Wiehen

Mike -

Thank you for the recent note on Zaire.

One of the problems, it is said, is the negative disbursements of bilateral donors. Table 1, which projects financing requirements and also shows 1982-85 data, shows disbursements by source but not amortization. The net negative disbursement point does not emerge. Table 3 shows balance-of-payemnts. For reasons best known to the authors, this covers the same projection period, but in a slightly different format. Here, neither disbursements nor amortizations are disaggregated by source. If someone wished to make the point about negative net disbursements from bilateral donors, he would, I guess, have to ask for yet another table.

Could you let me have that?

A handwritten signature in dark ink, appearing to be 'E. Stern', is located at the bottom right of the page.

The World Bank

Washington, D.C. 20433
U.S.A.

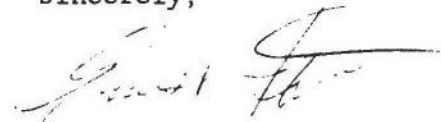
November 10, 1986

Dear Dr. Kurien:

It was with great delight that I learned that the 1986 Carnegie Foundation's Wateler Peace Price was awarded to you. Your efforts in Anand have not only been of major importance to those in the region, but you have provided a model which demonstrates to anyone who wishes to learn that farmers, if properly led and supported by modern management systems, can substantially alter their own economic environment and improve their standards of living. The contribution you have made to those in the Anand region alone would merit this distinguished honor bestowed on you. But, your impact goes much beyond this region. I have no doubt that the world will continue to build on your experiences, and the lessons drawn from the dairy development efforts in Gujarat will help improve the lives of a great many more poor farmers in the years ahead.

Please accept my most sincere congratulations and very best wishes.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Dr. V. Kurien
Chairman
National Dairy Development Board
Anand, Gujarat
India

OFFICE MEMORANDUM

TO: Mr. Vinod Dubey, CPDDR

November 10, 1986

FROM: Ernest Stern, SVPOP *ES*SUBJECT: Additional Guidelines on the Preparation of SAF Papers

I think this is broadly okay. I have indicated a few changes in the text.

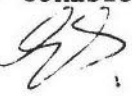
On para 5, I would add that these frictions can be further minimized if a firm timetable is agreed with the IMF and is placed on record, with a copy to CPD. Adherence should be assumed; changes should be mutually agreed.

Re para 4. The use of the PFP needs a more extended treatment. I would make the point that these differences often relate to matters beyond anyone's control and are matters of judgement (e.g. commodity prices). In such cases, reasonable ranges can be agreed upon. The PFP is not intended as an operational document. The Fund supplements it with the SAF paper. In the Bank, it is supplemented by the loan documents. For the CGs, it is supplemented with specific requests for new commitments (and the link between the commitments and disbursements is, as we know, not very precise).. The PFPs are broad statements of intent with financing requirements in reasonable orders of magnitude. They can be useful in CGs because they describe the Government's policy intentions, and can thus serve to persuade donors that there is a program. But, for the CGs, one would also, normally, prepare updated and more precise estimates of new commitments required to yield the desired disbursements.

OFFICE MEMORANDUM

Date: November 10, 1986

To: Mr. Barber B. Conable

From: Ernest Stern 

Subject: Nairobi Speech on Motherhood
Bank Lending for Health

Attached are two papers:

- a) An outline for your Nairobi speech
- b) A background note on our health program.

Please review the speech outline for its general thrust. It is sharply focussed on the health aspects, as you had suggested. If broadly alright PHN and Ms. Herz will follow up with the speech-writing unit. It would be helpful, of course, if you would indicate topics you would want added/deleted or any comments on the treatment of topics shown. We plan to have a first draft to you upon your return from your Latin America trip. If you think a different approach, I would like to meet with you and the technical staff involved to discuss it as soon as possible.

Please note, the second alternative conclusion has not been staffed out yet. If it seems practicable and has merit we'll forward it later for your approval. For the moment we would plan to conclude the speech referring to our lending objectives.

Approved: _____

Prepare Alternative Approach: _____

OFFICE MEMORANDUM

Date: November 10, 1986

To: Mr. D. Joseph Wood, FPBVP

From: Ernest Stern, SVPOP *ES*

Subject: Priorities

I regret that the note on priorities was received so late as to provide little opportunity for comment and, I suppose, even less opportunity for you to take these comments into account. It seems to me that in situations like this, when time is short, we would be better served if drafts were circulated simultaneously to senior staff rather than waiting for a final version.

This paper certainly reflects the comments made at the Annual Meetings and, in this sense, is very responsive. However, it does not provide leadership since it gives no view at all about how the Bank management views these matters. This has every prospect of leading us again into a discussion of Board preferences which we then will find it impossible to extricate ourselves from.

Para. 4 is baffling. We first assure the Executive Directors, in the second sentence, that all there is at issue is how we allocate incremental resources. This, of course, is hardly the point as the following sentence indicates. But the impression of the opening sentence is left particularly since nothing in the paper suggests that there is to be any consideration of reductions in existing service levels. In para. 5 EDs are encouraged to add suggestions for new initiatives but nothing is said about reducing resources in areas they feel to be of lesser importance.

In the section on catalytic work in para. 6, I believe the reference to cofinancing is inappropriate. We do not plan on much cofinancing in the heavily indebted countries. I would suggest we delete this reference.

The objective of para. 9 seems unclear. I assume it addresses our standby capacity but if that is so it is addressed most obtusely and obscures the risk we are running. In a three-year time horizon some turn-about may be expected in several of these countries.

Regarding the comments in para. 10 on supervision and implementation, why is no reference made to your own proposals to eliminate full coverage of PCRs since this is an important element in your budget proposals. Why is this not the time to table it with the Board?

As to new initiatives, why do we limit the list to those mentioned by others? Moreover, in discussing those we are inviting comments asking us to expand our work. For instance, there can be only one answer to the trade issue paragraph. But we give the Board no indication of what an affirmative response to this will cost in reduced services elsewhere. And how do we expect the Board to assess these initiatives if it does not know

of others still to be tabled--or indeed how much scope there is in the budget framework. We have not mentioned women in development, the need for an Africa-wide coordination effort, the necessary improvements in debt management capacity or an expanded role for the Bank in debt rescheduling in low-income countries, public sector management and privatization. In addition, while we have referred to an expansion of field offices, that is under the heading of assistance to low-income countries. We have already established a field office in the Philippines and are planning to establish offices in Argentina and Brazil, have opened a temporary office in Mexico and, resources permitting, would open an office in Turkey and if the Egypt reform program actually materializes one there as well.

cc: Mr. Conable
Mr. Qureshi

Date: November 10, 1986
To: Mr. Barber B. Conable
From: Ernest Stern
Subject: NIGERIA

Attached, for your review, is a proposed telex on Nigeria. We expect discussions to be completed in the next few days.

Please return this to me, with any changes you wish to make, as soon as possible.

Attachment

ES:dpw

November 10, 1986

Mr. Dean

Ron:

As I mentioned on the phone Friday, I'd be grateful if you could find out (from Finance or Central Bank) why there has been no response from the Australian banks on the Mexico package. We are most interested in the three banks with a single asterisk. Could you let me know:

- a) what the problem is, and
- b) when the Steering Committee might expect to hear.

Ernie

Attachment

Australian Banks

- * Australia & New Zealand Banking Group ltd
- ** Commonwealth Bank of Australia
- * National Australian Bank
- ** Partnership Pacific Bank
- * WestPack Banking Corporation

* fairly large amount
** fairly small amount

11/7/86

OFFICE MEMORANDUM

TO: Mr. Willi Wapenhans, EMNVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: PDRY

November 7, 1986

During a visit by a Swedish delegation to sign an agreement providing consultant funds, they raised an issue relating to payment by PDRY for completed consultant services under our Fisheries project. I understand that Regional staff is familiar with the problem.

As stated by the Swedes, the consultant work was done by Scandia International Consultants, and more than \$ 1 million remains unpaid. What seems to be in dispute is whether the problems with the breakwater are the responsibility of the consultants or are due to lack of maintenance. I was told that our staff had completed a technical review which found no fault with the consultant. The credit is due to close on December 31, 1986.

I would appreciate it if you would let me know the status of this matter and where we stand. I would also ask you to ensure that the credit, if due to close on December 31, 1986, be kept open---but solely for the possible payment of this disputed amount.

cc: Mr. Kiermayr

The World Bank

ERNEST STERN
Senior Vice President
Operations

11/6

Ms. Rubio

Herewith the list of Spanish banks which have still not responded on the Mexico transactions. The first 5-6 are obviously the most urgent.

I'd be grateful if you could contact Madrid tomorrow to a) ascertain what the problem is b) ask the Central to use its good offices to get some responses.

The situation is quite urgent since we simply must make some progress before Friday.

I'd be grateful if you could let me know the results.

Ernest S.

- *7 Banco Catalana
- Banco Arabespanol
- Banco Alantico
- Banco Central Corp (w/Subsidiary in Puerto Rico)
- *5 Banco Central S.A.
- Banco de Andalucia
- (*) Banco de Bilbao
- Banco de Castilla
- Banco de Credito Balear
- Banco de Galicia
- Banco de Progreso
- Banco de Sabadell
- *6 Banco de Santander
- Banco de Vasconia
- *3 Banco de Vizcaya
- *4 Banco Exterio de Espacia
- Banco Guipuzcoano
- Banco Herrero
- *2 Banco Hispano Americano (down for 26.7 m but have declined to partic.)
- Banco Hispano Industrial
- Banco Industrial de Cataluna
- Banco Internacional de Comercia
- Banco de Pastor (down for 4.9 m but have committed only 15,000)
- Banco Popular Expanol
- Banco Simeon
- *5-6 Banco Urquijo Union

* denotes order of amounts

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

ERNEST STERN
Senior Vice President, Operations

11/7

Mr. Stanton

Bill -

I do hope we can develop a better system for dealing with issues like this than a round-robin of correspondence.

I basically agree with Ext's conclusions. Except I believe we know enough about the subject and the budget to make a decision. We do not need to spend two months of work plus a bunch of interviews. The additional work is only justified, in my view, if we decide to proceed. If we do, we also are in a position to decide whether this will be absorbed within the ERS budget or be supplementary.

Ernie

November 5, 1986

Mr. Köpp

Eberhard:

Mr. Hasan can fill you in on the OVP discussion re the attached. We need to transform this into an instruction to staff.

Ernie

Attachment

Date: November 5, 1986
To: Mr. Pedro A. Malan, EDS
From: Ernest Stern, SVPOP
Subject: Baker Proposal

Attached is the response we provided to Mr. Van Dam.

I also enclose our latest status reports on adjustment-based lending to highly-indebted middle-income countries and to Sub-Sahara Africa countries.

Attachments

OFFICE MEMORANDUM

TO: Messrs. Botafogo (VPE), M. Paijmans VPA), November 4, 1986
M. Qureshi (SVPFI), Shihata (VPG),
Thahane (SEC)
Mrs. Krueger (VPERS)

FROM: Ernest Stern, SVPOP *ES*.

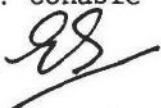
SUBJECT: ZIMBABWE CPP

Attached for your information is the CPP for Zimbabwe. It was discussed by the OPC on October 20, 1986, and the conclusions are recorded in the attached Postscript.

OFFICE MEMORANDUM

TO: Mr. Barber B. Conable

November 4, 1986

FROM: Ernest Stern 

SUBJECT: ZIMBABWE - Country Program Paper

The Country Program Paper (CPP) for Zimbabwe was discussed by the OPC on October 20, 1986. Attached are the CPP, the Agenda for the meeting, and the Postscript recording the conclusions of the OPC discussion.

The Region's proposed five-year lending program contains operations intended to support essential policy reforms in Zimbabwe to establish a basis for accelerated sustainable growth. However, since it is still unclear to what extent Zimbabwe will undertake these policy reforms, the Committee only approved the lending program for this year and next. A review of progress in Zimbabwe and a reassessment of creditworthiness are required prior to FY89.

Zimbabwe poses interesting problems and you may wish to review the CPP with the senior group. If so, we should ask the Region to make a short presentation. If no meeting will be scheduled, please indicate your approval of the CPP proposals, as amended by the OPC, below.

Approved: _____

Disapproved: _____

11/5/86

Ms. Klaric

S 6123

X

Anita:

This is the lady you and I talked
about a few days ago. Would you
please set the ball rolling?

Diane

The World Bank

ERNEST STERN
Senior Vice President
Operations

November 5, 1986

Mr. Jaycox

Kim -

I am at a loss to understand what persuaded you to change your position. Para 6 of your memo indicates that there are ample resources available under the Highway Sector Loan--- indeed, more external resources than the Government is capable of absorbing. Why, given that situation, it should be possible to prepare tenders for the South Lake Road under the Power Project, and not under the Highway Loan, is not explained.

If the work is urgent, I suggest that the Government deals with its internal obstacles to expeditious action.

The World Bank

ERNEST STERN
Senior Vice President
Operations

November 5, 1986

Mr. Stanton

Bill -

Attached is the schedule of policy papers which I plan to forward over the next several months. We will update this monthly.

As you know, two of the papers listed (Transition Costs and Development and the Environment) are being prepared for the Development Committee discussions.



cc: Mr. Conable

Scheduled Distribution of Operations Papers 1/
to President's Senior Staff (PSS) for Review
(November 1986 - February 1987)
 (as of November 3, 1986) 2/

<u>Title</u>	<u>Expected Distribution Date</u>	<u>Distribution to the Board 3/</u>
The Bank's Approach to Subsidies	Mid-November	Late November (for information)
Financing of the Health Sector	Mid-December	End-December - Scheduled COW for January 27.
Transition Costs and Social Consequences of Stabilization and Adjustment	Early February	February 10, 1986 (Board Discussion - March 10)
Development and the Environment	Early February	(As above)
Policy Paper on Road Deterioration	Mid-January	February
Twelfth Annual Report on Project Implementation and Supervision	Mid-January	January (Board meeting scheduled Feb. 24)

1/ Papers which present new policy, elaborate upon or clarify existing policy, carry out review work of major Operational significance or have been requested by the Board.

2/ Next update December 1, 1986

3/ Normally the Board requires four weeks between the date of Board distribution and the discussion of policy papers.

OFFICE MEMORANDUM

DATE: November 5, 1986

TO: Mr. Edward V.K. Jaycox, Vice President, ESA

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: BURUNDI - Proposed Economic and Public Enterprise Management Project

The above proposal is approved, based on the parameters indicated in the Executive Project Summary dated October 27, 1986, with the following comments/qualifications:

- (i) During appraisal, realistic but tight timetables should be agreed with the Government for the implementation of critical project actions (e.g., establishment of a management information system for the PE sector, design and implementation of a performance incentives and a performance measurement system for PEs, identification of PE management training needs, development of project preparation and appraisal capacities of existing sectoral units, etc.). These are important to guide the work program of the consultants and will enable us to monitor progress;
- (ii) The scope and rationale for a strategic analysis of the PE sector is not evident, particularly since the Government has already agreed to an action plan for selected enterprises under SAL I. We should consider whether these funds can be saved, in total or in part;
- (iii) Since, in the context of SAL I, the Government has agreed that prices will be deregulated and public enterprises will be subject to the same market environment as the private sector, you should consider whether marketing assistance to enterprises facing the need to compete for the first time would be useful;
- (iv) It is not clear why it should be necessary to prepare both a public expenditure program and a public investment program, nor why two different ministries should be responsible for their preparation. The public expenditure program will presumably include both planned recurrent and planned capital expenditures for each executing agency, thus subsuming the public investment program, and, if prepared on a rolling basis, should permit adequate planning of the resources available to the Government. If the idea is to have the planning for the capital budget separated from the planning for recurrent expenditures, this should be reconsidered. There is ample experience that this division either leads to the underfunding of maintenance and recurrent costs or to unrealistically large budgets;

- (v) The central unit to be established in the Ministry of Planning should not become involved in project appraisal. Project appraisal should remain the responsibility of executing agencies with suitable strengthening. The unit in the Ministry of Planning should establish guidelines and perform a review function;
- (vi) Training for the staff of the National Statistics Service should not be included under the proposed project. Funding for this activity should be sought from the UNDP or other sources who have a better comparative advantage in this area than the Bank; and
- (vii) In the section on risks it is said that the institutional reforms envisaged under the proposed project would dilute the power of the Ministry of Planning. This is not obvious from the description--indeed, the Ministry would appear to emerge as having a more effective role. Are there other aspects to the project which would generate this fear in the Ministry of Planning?

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 5, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: INDIA - Proposed Oil India Petroleum Project

1. The above proposal is approved as outlined in the documents submitted under cover of your memorandum of October 30, 1986, with the following comments/qualifications:
 - (i) If agreement cannot be reached with the Government that, in the event of a commercial oil discovery during the exploration of the North East Coast (NEC), it would promote the areas adjacent to this discovery to the private sector, the NEC exploration component should be dropped;
 - (ii) The onlending terms envisaged are acceptable, but Oil India Ltd. (OIL) should also assume the foreign exchange risk;
 - (iii) The project appraisal documentation should elaborate on how this project fits into OIL's overall investment program and how the remainder of the program is to be financed. Details should also be provided on OIL's present and prospective financial position; and
 - (iv) In view of the expected attractive returns on the production improvement scheme, the Region should explore the possibility of foreign and/or local cofinancing for this component. If OIL is already borrowing from private sources for its program, we should have explicit attribution to this project by negotiation. The financial plan in the PR should indicate the specific sources of finance.
2. The operation should be resubmitted to the Loan Committee prior to negotiations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 5, 1986

TO: Mr. Edward V.K. Jaycox, Vice President, ESA

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: ZAMBIA - Proposed Tazama Pipeline Rehabilitation and
Indeni Refinery Improvement Project

The above proposal is approved, based on the parameters outlined in the Executive Project Summary dated October 29, 1986, with the following comments/qualifications:

- (i) Since ZIMCO, TPL and Indeni are apparently in such a good financial position, the Region should insist that they finance a larger proportion of total project costs than the 10% presently envisaged. These entities seem to have been paying dividends to the Government at the expense of basic maintenance;
- (ii) It is assumed that ZIMCO, TPL and Indeni will bear the foreign exchange risk on the funds lent to them by the Government of Zambia, in addition to paying interest on those funds at a rate equivalent to the Bank's prevailing rate plus the normal 10% premium. The duration of the loans should, of course, be set on project grounds;
- (iii) The actions to be agreed upon at appraisal (para. 5) are assumed to relate to TPL, and not just to ZIMCO and Indeni; and
- (iv) The institution-building and training components should be fully appraised, so that their implementation can proceed rapidly.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 5, 1986

TO: Mr. Edward V.K. Jaycox, Vice President, ESA

FROM: Ernest Stern, Chairman, Loan Committee *ES*.

SUBJECT: MOZAMBIQUE - Proposed Economic and Financial Management
Technical Assistance Project

1. The Loan Committee has the following comments on the above proposal as outlined in the Decision Memorandum dated October 28, 1986, and related documents:

(a) Preparation of this project appears to be far from complete; appraisal was therefore premature. In any event, the proposal needs to be reconsidered taking into account the Committee's views as outlined below;

(b) Processing of this project should be linked to progress in preparing and adopting the proposed Economic Reform Program. The project should not be presented to the Board until the ERP is firmly in place and a framework for the project has been established;

(c) Given the Government's limited absorptive capacity and its pressing immediate requirements, the principal purpose of the project should be to assist in implementing the ERP. The scope and size of the project should be critically reviewed with this objective in mind;

(d) The availability of alternative sources of technical assistance should be explored, especially for the Statistical Department and the Research Department of the Central Bank; the latter the IMF should be able to furnish, and the former the UNDP. IDA assistance to the Central Bank should be confined to strengthening the debt reporting system; and

(e) Terms of reference of at least the long-term consultants and a list of principal counterpart staff should be agreed at negotiations.

2. A new EPS should be submitted to the Loan Committee for review after the project has been appropriately restructured and is ready for appraisal.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 5, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: INDIA - Proposed Western Gas Development Project

The above proposal is approved as outlined in the Decision Memorandum dated October 28, 1986, and related documents with the following comments:

(a) The schedules for pipeline construction and for implementation of related new fertilizer and power plants should be reviewed and agreed with the Government, to ensure that availability of gas and gas offtake are adequately harmonized;

(b) The Decision Memorandum (para 2) states that "the Bank would seek reform in fertilizer pricing policy toward free market pricing". The impression conveyed is that the Region intends to go beyond its present understanding with GOI on this subject, but this is left unclear. The project documents should contain an assessment of the progress being made by GOI in addressing pricing and efficiency issues in the fertilizer industry as agreed in connection with the Cooperative Fertilizer Industry Project, and should elaborate on the follow-up action proposed;

(c) The scope for further co-financing, in addition to the US\$675 million of proposed export credits, should be explored. Details of the co-financing arrangements should be elaborated in the project documents, with indications of the type and timing of finance envisaged; and

(d) Since the beneficiary of the Bank loan is a major productive enterprise, there is no reason to depart from standard policy which requires that it carry the foreign exchange risk on the loan.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 4, 1986

TO: Mr. W. David Hopper, Vice President, ASN

FROM: Ernest Stern, Chairman, Loan Committee *ES*

SUBJECT: INDIA - Proposed Karnataka Power Project

The above proposal is approved, based on the parameters indicated in the Issues Paper, Project Brief and Decision Memorandum submitted under the covering memorandum dated October 20, 1986, with the following comments/qualifications:

- (i) The project documentation should elaborate on the institutional capacity and financial performance of the Karnataka Electricity Board, and the other agencies which are expected to implement the project in recent years; remedial actions should be identified and agreed on, as necessary, in such areas as maintenance, accounting, collection of receivables, training and self-financing ability of the investment program;
- (ii) Given past experience with power projects in India, the Region should ensure that project preparation is as advanced as possible before Board presentation. Specific actions which should be considered and which could be financed either through retroactive financing or through a PPF include definition of the work program of the dam review panel and agreement on the scope and timetable of the training and study programs.
- (iii) In addition to seeking agreement at negotiations that GOK notify in respect of KPC and KEB a required surplus of not less than 5% after interest, the Region should agree with GOK on a timetable by which this surplus would be reached. The surplus to be agreed upon is presumably adequate to ensure a satisfactory return on revalued assets;
- (iv) The purpose of the proposed tariff and metering study is not totally clear, since we already seem to know what LMRC is and what tariffs are necessary to reach it; and
- (v) It is unclear how with a 3% rate of return, the average retail tariff would be a little less than 90% of LMRC, and with a 5% rate of return, the average retail tariff would be about 91% of LMRC.

Material related to item (i) can either be sent by the Region as a supplemental note or the Green Cover can be submitted prior to negotiations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 4, 1986

TO: Mr. Attila Karaosmanoglu, Vice President, AEN

FROM: Ernest Stern, Chairman, Loan Committee *ES*SUBJECT: CHINA - Proposed First and Second Coal Mine Expansion and
Modernization Projects

1. The Loan Committee has the following comments on the Executive Project Summary dated October 22, 1986, and attached memorandum relating to the above two proposed projects:

(a) Apart from being contrary to earlier indications and understandings, failure to raise controlled coal prices in 1987 would represent an unfortunate reduction in the pace of policy reform in the sector;

(b) If controlled coal prices are not adjusted in 1987, unduly large increases would be required in 1988-90 to achieve the objective of reaching long-run marginal cost by 1990;

(c) The fact that the Government proposes to implement pricing reforms in the iron and steel sector in 1987 is not a sound reason for postponing further action on coal until 1988. On the contrary, it would be more logical and desirable to adjust input (including coal) prices for iron and steel at the same time as output prices;

(d) Although the proportion of total coal output subject to price controls may be declining, the output of MCOI mines to be assisted by the Bank remains substantially controlled, and their average prices are relatively low. A decrease in the production quotas of project companies, and/or an increase in prices, appear to be required;

(e) While the proposal to introduce internal cash generation targets for project companies is welcome, these targets will have little meaning unless they have a bearing on pricing and/or quota decisions. The targets should be set at levels enabling the companies to make a meaningful contribution to their investment needs. The targets will presumably need to be taken into account when determining profit remittances to the state; and

(f) The Region should agree with the Chinese authorities on a timetable to grant increased autonomy to the project entities in support of the emphasis being placed on reducing interest rate subsidies and on requiring the entities to carry the foreign exchange risk.

2. The above issues should be discussed further with the Government in the light of the Loan Committee's comments, and the outcome reported to the Committee prior to negotiations.

cc: Loan Committee

OFFICE MEMORANDUM

DATE: November 4, 1986

TO: Mr. Stephen Weissman, EISVP

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: EIS - FY87 Resource Shortfall

1. I agree that you should release Front Office funds to support the work program in cases where you are satisfied the program is in hand and additional resources will translate into additional outputs. At mid-year we will consider additional EIS requirements in the light of changes to the original plan of work and the requirements of other units in Operations.

2. You should also move the two positions to Industry, but not at the Senior Advisor's level.

cc: Messrs. Ruddy
Churchill
Golan

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

November 4, 1986

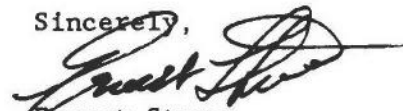
Dear Mr. Kapur:

Thank you very much for your letter of October 9 and your interest in working with the World Bank.

I think the most realistic prospect is in the area of consultant services, particularly since the Bank is now quite heavily engaged in assisting member countries in the restructuring of public enterprises to improve their management and increase their efficiency. I have, therefore, taken the liberty of sharing your bio-data both with our Personnel Office, so that it may be included in the Consultants Roster, and with Messrs. Golan and Churchill, who are respectively the Directors of our Industry and Energy Departments. I have asked them to be in touch with you directly should suitable opportunities arise.

Best regards.

Sincerely,



Ernest Stern
Senior Vice President
Operations

Mr. D. V. Kapur
12 Tughlak Lane
New Delhi 110011
India

November 4, 1986

Mr. Köpp

Eberhard -

Thank you for your note regarding Bank action in Public Enterprise Divestiture. It provides useful supplementary information to the material presented by Mr. Golan. Unfortunately, it does not yet provide me much information about what is actually happening in this area. My impression is that much of what is listed in the attachments is by way of intention and there is relatively little action.

However, I do not believe it is desirable at this stage to seek additional information. Both the materials prepared by Mr. Golan and your note suggest that this is an area which is ripe for consideration for some internal restructuring and divestiture. When we know how we are going to proceed in regard to other internal changes, we will consider how best to proceed in this area, as well.




Ernest Stern

cc: Mr. Husain

OFFICE MEMORANDUM

TO: Mr. Attila Karaosmanoglu, AENVF

November 4, 1986

FROM: Ernest Stern, SVPOP SUBJECT: AEN Fall 1986 PIR

I read with interest your Fall 1986 Implementation Review and you will, no doubt, be discussing it in detail with Mr. Husain. However, I just wanted to note that the situation regarding competitive source of financing seems to be very pronounced in East Asia and clearly underlines two things: first, that we should not proceed with lending unless we have a clear understanding with the Government that it will not artificially fix interest rates from other sources below those available from the Bank. In this area, perhaps more so in a number of others, failure to achieve an overall agreement on interest rates undermines project objectives, slows down disbursements, and leads to a misallocation of resources. Second, where the Government believes that our resources are unduly expensive, such as is noted in a couple of instances in regard to Korea, we should not hesitate to agree with the Government on the cancellation of outstanding balances. In my own view, this concern of competitiveness of interest rates is often overdone because these governments look only at current interest rates against specific currencies and do not take into account the long-term buffer that our system provides against rise in interest rates and appreciation of exchange rates. However, as your recent submission on Korea indicated, views on this may differ and, indeed, may be affected by our choices of currency for disbursement. In any event, where such views are prevalent, we need to be careful not to expend undue staff resources in trying to fix this problem at the margin and make sure that the governments understand that they are free to cancel outstanding balances.

cc: Mr. Husain

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
Washington, D.C. 20433
U.S.A.

November 4, 1986

Mr. Gustavo Petricioli
Secretary of Finance and Public Credit
Secretariat of Finance and Public Credit
Palacio Nacional, 3rd Piso
Mexico, D.F., Mexico

Dear Gustavo,

Since my last report to you in September on the status of processing the proposed lending operations for Mexico, a number of issues have emerged which could adversely affect the successful and timely preparation of important projects.

Fertilizer Restructuring Project

Appraisal of the Fertilizer Restructuring Project, originally scheduled for October/November 1986, had to be delayed because the Government's restructuring program for the fertilizer industry has not yet been received by the Bank. This program had been promised to us by the end of September. We are sending a mission in early November to assist in whatever way we can to advance project preparation. For this, it will be necessary for the mission to have direct access to PEMEX regarding the construction cost and location of proposed ammonia plants, the opportunity cost of gas used in the manufacturing of fertilizer inputs, and other pertinent information. It will also be necessary for the Government to complete work on the program, which involves decisions in principle regarding the future ex-factory pricing of fertilizers, the privatization of distribution, the financial and organizational restructuring of FERTIMEX, and other key parameters of sectoral policy as indicated in our letter to Lic. Suarez Davila of June 6, 1986.

Steel Sector Loan

At the request of Government, we delayed the identification of this project by one month to December 1986. As a consequence, the schedule for appraisal had to be delayed as well. For preparation to proceed without further slippage, it will be necessary, as in the case of fertilizer, to receive an agreed sectoral restructuring plan, including a definition of the major policy parameters. A draft of the Bank's steel report was recently distributed. I am sending a copy for your personal attention under separate cover.

Agricultural Sector Loan

A mission is currently in Mexico to discuss with relevant authorities the outline of a sectoral policy statement and other requirements (specified in the attached Table 3) that would have to be met before we can proceed with appraisal of the Agricultural Sector Loan.

Technical Assistance Project

At Government's request, we have dropped the Technical Assistance Project from the lending program. We would appreciate knowing how the project's important objectives, on which complete agreement had been reached prior to Government's decision to cancel its request for Bank financing, will be accomplished and how the program of studies that we had jointly formulated will be executed. Effective management of public expenditures is crucial to the success of the financing package.

US\$500.0 million Growth Facility

We are currently waiting for the Government's proposals regarding the projects that would be included in the Facility. I suggest that you expedite this work as much as possible so that we can evaluate the Government's proposals in light of the term sheet requirements and discuss possible adjustments well before the end of the first quarter of calendar year 1987.

Trade Policy Loan I

The first tranche of the commercial bank new money facility (in the amount of US\$2.5 billion) is scheduled to be available for drawdown from December 1, 1986. One of the drawdown conditions is that disbursements in the amount of US\$400.0 million shall have been made under the Trade Policy Loan I. Since the first tranche of the TPL I is for US\$300.0 million, the commercial bank drawdown condition requires that the Government is in compliance with the conditionality attached to both the first and the second tranche of the TPL I. Given the importance of this matter, I urge that the decisions necessary to enable us to release the second tranche before December 1, 1986 be taken soon.

Disbursements

As of September 30, 1986, only US\$416.0 million has been disbursed for projects approved through June 30, 1986, compared to a calendar year projection of US\$800.0 million. Agencies continue to be slow in processing withdrawal applications. For example, we understand that approximately \$250.0 million in eligible expenditures have been incurred under the Earthquake Reconstruction Project. Yet, withdrawal applications are only now beginning to come in and the total received so far falls short of eligible expenditures.

Attached for your information are the updated tables detailing the processing schedule of proposed operations in CY1986-88, and listing outstanding project issues.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern".

Ernest Stern
Senior Vice President
Operations

Attachments

MEXICO

PROCESSING SCHEDULE FOR PROPOSED OPERATIONS CY1986-88

	Previous Schedule				Revised Schedule				Reason for Important Changes in Major Operations
	Appraisal	Negot.	Board	Effect.	Appraisal	Negot.	Board	Effect.	
I. 1986 COMMITMENTS									
A. Major Operations									
Trade Policy Ln. I	Completed	Completed	Completed	11/86	Completed	Completed	Completed	11/86	
EDP II	Completed	09/86	11/86	02/87	Completed	Completed	11/86	02/86	
FLRA IX	Completed	10/86	11/86	02/87	Completed	11/86	12/86	03/87	
B. Other Operations									
Industrial Recovery	Completed	Completed	Completed	11/86	Completed	Completed	Completed	11/86	
Technology Development	Completed	Completed	Completed	1/	Completed	Completed	Completed	Completed	
Tropical Agriculture	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Emergency Reconstruction	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Municipal Development	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
Solid Waste Pilot	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed	
II. 1987 COMMITMENTS									
A. Major Operations									
Small/Med. Industry IV	09/86	01/87	05/87	08/87	Completed	01/87	05/87	08/87	
Fertilizer Restructuring	10/86	04/87	06/87	09/87	02/87	07/87	09/87	12/87	Appraisal delayed due to corresponding delay in receipt of Govt. report on fertilizer restructuring.
Agric. Sector Ln. I	10/86	02/87	05/87	08/87	01/87	06/87	07/87	10/87	Processing slipped due to delay in preparation by Govt. of agricultural policy statement.
Trade Policy Ln. II	03/87	07/87	09/87	12/87	03/87	07/87	09/87	12/87	
Ind. Restructuring	02/87	06/87	08/87	11/87	02/87	06/87	08/87	11/87	
Steel Restructuring	01/87	04/87	07/87	10/87	02/87	07/87	10/87	01/88	Appraisal delayed due to corresponding delay in identification as requested by the Government.
B. Other Operations									
Agric. Extension	10/86	03/87	06/87	09/87	Completed	03/87	06/87	09/87	
Agro-Industries	01/87	05/87	07/87	10/87	01/87	05/87	07/87	10/87	
Dairy Development	11/86	05/87	07/87	10/87	01/87	06/87	08/87	11/87	Preparation of project not yet complete
Highway Maintenance	10/86	03/87	07/87	10/87	10/86	03/87	07/87	10/87	
Ports IV	11/86	06/87	08/87	11/87	11/86	06/87	08/87	11/87	
Manpower Training & Dev.	01/87	06/87	09/87	12/87	01/87	06/87	09/87	12/87	
Urban Transport	Completed	12/86	01/87	04/87	Completed	01/87	02/87	05/87	
Technical Assistance I	10/86	01/87	02/87	05/87					Dropped at Government request.
III. 1988 COMMITMENTS									
A. Major Operations									
Power I	03/87	06/87	10/87	12/87	06/87	11/87	01/88	04/88	Additional time needed for project preparation as discussed with CFE management by identification mission currently in the field.
Industrial Sector	11/87	02/88	05/88	06/88	01/88	05/88	07/88	10/88	
Agric. Sector Ln. II	03/88	07/88	10/88	12/88	03/88	07/88	10/88	12/88	
Trade Policy III	02/88	05/88	07/88	10/88	02/88	05/88	07/88	10/88	
B. Other Operations									
Irrigation Rehabilitation	04/87	09/87	01/88	04/88	04/87	09/87	01/88	04/88	
Forestry	07/87	12/87	02/88	05/88	07/87	12/87	02/88	05/88	
Health	09/87	01/88	05/88	08/88	09/87	01/88	07/88	10/88	
Housing Dev. II	03/87	10/87	11/87	02/88	03/87	10/87	11/87	02/88	
Fed. District Water/Sewerage	09/87	01/88	03/88	06/88	09/87	01/88	07/88	10/88	
FIFAPA IV (Water)	09/87	03/87	05/88	08/88	09/87	03/87	07/88	10/88	

1/ To be signed September 28.

MEXICO
Potential World Bank Lending, CY1986 - 88
in Support of Mexico's Growth Oriented Adjustment Program 1/

[US\$ million]

	Calendar years		
	1986	1987	1988
TOTAL	1,922.0	2,850.0	2,190.0
Of Which:			
A. Completed to date	1,272.0	-	-
B. Major Operations			
FIRA IX	400.0		
EDP II	250.0		
Industrial Restructuring		250.0	
Small/Medium Industry IV		200.0	
Fertilizer Restructuring		250.0	
Agricultural Sector		300.0	
Trade Policy Loan II		800.0	
Steel Restructuring		350.0	
Power I			400.0
Industrial Sector			400.0
Agricultural Sector II			400.0
Trade Policy Loan III			500.0
C. Other Operations			
Urban Transport		130.0	
Agricultural Extension		70.0	
Ports IV		100.0	
Housing Development II		200.0	
Manpower Training & Dev.		45.0	
Agro-Industries		125.0	
Highway Maintenance		130.0	
Dairy Development		100.0	
Irrigation Rehabilitation			70.0
Forestry Development			80.0
Health			100.0
Fed. Dist. Water/Sewerage			80.0
FIFAPA Water			200.0

1/ Loan amounts shown for individual operations are tentative.

MEXICO
Estimated Disbursements from World Bank Operations, 1986-88 1/ 2/

(US\$ million)

	Calendar Years		
	1986	1987	1988
TOTAL	1,293.0	1,770.0	2,445.0
Of Which:			
A. Operations Approved to 6/30/86 1/	800.0	600.0	400.0
B. Operations Approved 7/1-12/31/86			
FIRA		200.0	160.0
EDP II		90.0	95.0
Trade Policy Loan I	489.0	11.0	
Others	4.0	25.0	25.0
C. Loans to be Considered in 1987 2/			
Agricultural Sector I		300.0	
Trade Policy Loan II		300.0	300.0
Fertilizer Restructuring			70.0
Small/Medium Industry IV		25.0	40.0
Industrial Restructuring		100.0	150.0
Steel Restructuring			100.0
Others		119.0	180.0
D. Loans to be Considered in 1988 2/			
Power I			75.0
Industrial Sector			200.0
Agricultural Sector II			100.0
Trade Policy Loan III			500.0
Others			70.0
Memo Item: Estimated Amortizations:	400.0	525.0	600.0
Net Disbursements:	893.0	1,245.0	1,845.0

1/ Assumes satisfactory resolution of the following project execution problems: (a) counterpart fundings; (b) compliance with Bank Procurement Guidelines; (c) implementation of agreed auditing arrangements; and (d) speedy submission of disbursement applications.

2/ See Table 3.

MEXICO

PENDING ISSUES FOR PROCESSING OF PROPOSED CY1986-88 OPERATIONS

I. Pending Issues Concerning Major and Quick Disbursing Operations

A. 1986 Commitments

Ninth Agricultural Credit Project

Next Significant Step: Negotiations

Required Decisions by Mexican Authorities: Agreement to be reached during negotiations on: (a) satisfactory progress towards completion of external financing plan; (b) amendment of GIRA to reflect Government's agreement that subsidies on agricultural subloans would be further reduced from January 1, 1987 levels, by 50% in real terms by January 1, 1988; (c) terms of reference for the agricultural financial subsector review; (d) FICART adherence to agreed subloan appraisal and supervision procedures; (e) financial self-sustainability of FIRA and FICART within five years and interim semi-annual review of progress; and (f) the agricultural financial subsector review for Bank comment by June 30, 1987 and a timetable for implementation of its recommendations by September 30, 1987.

EDP II

Next Significant Step: Board Presentation

Required Actions by Mexican Authorities Before Board Presentation:
(a) submission of Export Development Policy letter; and (b) submission of letter for implementation arrangements for studies.

B. 1987 Commitments

Agricultural Sector

Next Significant Step: Appraisal

Required Decisions by Mexican Authorities: In addition to recent improvement of operating efficiency of CONASUPO and reduction of consumer subsidies, development of a medium-term agricultural development strategy -- and progress toward implementing it -- including reduction of restrictions to domestic and foreign agricultural trade; reduction of price controls on foodstuffs and producer subsidies; review of agricultural investment program; streamlining of Secretariat of Agriculture and Hydraulic Resources; and progress on sugar rationalization.

Trade Policy II

Next Significant Step: Identification/preparation in conjunction with first supervision mission of TPL I in November 1986

Required Decisions by Mexican Authorities: (a) additional non-tariff barrier reductions of at least 20 percent of production by November, 1987; (b) adherence to the announced calendar of tariff reductions; (c) reform of price controls on tradable commodities, consistent with elimination of quantitative import restrictions; (d) reform of transportation policies affecting international commerce; and (e) public sector procurement.

Fertilizer Restructuring

Next Significant Step: Preappraisal

Pending Actions for Processing: Restructuring program for the fertilizer industry which was to be submitted to the Bank by end September still not received. Appraisal date to be confirmed after receipt of satisfactory restructuring program.

Small and Medium Scale Industry IV

Next Significant Step: Negotiations

Agreements to be Reached During Negotiations: (a) counterpart funding for the financial restructuring component; (b) arrangements for retention of loan recovery in executing agencies; and (c) onlending interest rates to subborrowers.

Industrial Restructuring

Next Significant Step: Preappraisal

Pending Actions for Processing: Timely completion of consultants' studies of auto parts, agro-industry and textiles subsectors (preliminary results of studies now expected in December 1986/January 1987).

Required Decisions by Mexican Authorities: (a) Commitment to further policy measures still to be defined, including further realignment of relative prices and rationalization of industrial incentives; (b) a viable institutional structure capable of resolving inter-agency conflicts; (c) definition of the borrower (NAFIN or BANCOMEXT) and designation of the executing agency; and (d) full commitment to participation by responsible representatives of the private sector.

Power

Next Significant Step: Preappraisal

Pending Actions for Processing: To be determined on the basis of recommendation of identification mission currently in the field.

Required Decisions by Mexican Authorities: (a) agreement on a program of real tariff increases and on a realistic least cost investment program; (b) agreement on efficiency improvement and institutional development measures; and (c) agreement to follow Bank procurement procedures.

Steel Restructuring

Next Significant Step: Identification

Pending Actions for Processing: Government formal request for assistance

Required Actions by Mexican Authorities: (a) formulation of a global steel sector restructuring program and policy package; (b) implementation of the reorganization plan of SIDERMEX; and (c) carrying out market, product mix, and engineering studies needed to prepare the medium-term investment program.

C. 1988 Commitments

Power II

Next Significant Step: Identification

Pending Actions for Processing: Progress on Power I

Industrial Sector

Next Significant Step: Identification

Pending Actions for Processing: Government request for Bank assistance

Agricultural Sector II

Next Significant Step: Identification

Pending Actions for Processing: Successful implementation of Agricultural Sector Loan (CY 87) and progress on agricultural policy reform.

Trade Policy III

Next Significant Step: Identification

Pending Actions for Processing: Progress on Trade Policy I and Trade Policy II (CY87).

II. Pending Issues - Other Operations

A. 1987 Commitments

Agricultural Extension

Next Significant Step: Negotiations

Required Decisions by Mexican Authorities: (a) priority use of resources; (b) eligible expenditures; and (c) level of cost-sharing.

Agro-Processing

Next Significant Step: Pre-appraisal

Dairy Development

Next Significant Step: Mexicans to complete project preparation

Highway Maintenance

Next Significant Step: Appraisal mission departed October 27, 1986

Required Decisions by Mexican Authorities: (a) (i) Specific progress in increasing road user charges for heavy trucks; (ii) broader applications of ICB procedures in accordance with Bank guidelines; (iii) adequate maintenance planning procedures and adequate budgetary allocations; (iv) specific performance indicators; (v) establishment and staffing of a Project Coordinating Unit in SCT; and (b) Decision on budgetary allocations which would affect amount of Bank loan (could be increased to US\$200 million).

Ports IV

Next Significant Step: Appraisal

Pending Actions for Processing: (a) Completion of studies on the economic justification of the project components; and (b) preparation by the Government of the Five Year Port Investment Plan.

Required Decisions by Mexican Authorities: Preparation, prior to negotiations of a policy document outlining a plan of action for reforms in the areas of port pricing, administration and planning. Agreement, during appraisal, to specific investment criteria applicable to all future port investments, as well as to a system for monitoring the attainment of goals of action plans.

Skills Training

Next Significant Step: Appraisal

Urban Transport

Next Significant Step: Negotiation

Required Decisions by Mexican Authorities: Prior to negotiations, finalization of terms and conditions for onlending between BANOBRAS and states; and 2) definition of responsibility and staffing of an urban transport unit in BANOBRAS to coordinate and monitor project implementation.

Technical Assistance I

This project has been dropped at the request of the Government. Further reporting will be discontinued.

B. 1988 Commitments

Irrigation Rehabilitation

Next Significant Step: Project preparation by Government and completion of feasibility study.

Pending Actions for Processing: First draft of preparation report by Government by end of this year.

Forestry

Next Significant Step: Project preparation by Government

Pending Actions for Processing: Government confirmation of priority and commitment to project preparation.

Health

Next Significant Step: Identification

Housing Development II

Next Significant Step: Preappraisal

Pending Actions for Processing: Completion of review of Housing Finance Study which has just been received by the Bank.

Required Decisions by Mexican Authorities: Agreement upon: 1) improvements in cost recovery including, inter alia, linking starting interest rates to ACF; and 2) submission of a study to develop resource mobilization schemes.

Federal District Water Supply and Sewerage

Next Significant Step: Preparation by Government

Pending Actions for Processing: Resolution of institutional issues over provision of funds for studies and consultants.

Required Decisions by Mexican Authorities: (i) Plan of action for policy and administrative changes to institutional arrangements in DDF; and (ii) expedite unresolved legal issues which have not permitted disbursement of funds for reconstruction.

FIFAPA IV Water

Next Significant Step: Identification

Pending Actions for Processing: 100% commitment and 50% disbursement of FIFAPA III (presently, 70% commitment and 25% disbursed).

Required Decisions by Mexican Authorities: (i) Full staffing of project unit in SEDUE for preparation of feasibility studies (possibly funding for consultants); and ii) assurances of adequate and timely counterpart funding for ongoing and proposed projects.

LC1MX
October 31, 1986

OFFICE MEMORANDUM

TO: Mr. S. Shahid Husain, OPSVP

November 4, 1986

FROM: Ernest Stern, SVPOP 

SUBJECT: Restructuring of the UNESCO Cooperative Program

I appreciate your memorandum of October 24th and you are authorized to proceed as recommended in para 5. As you note, this may turn out to be a politically sensitive process, and I would appreciate it if you would keep me posted regularly on how the discussions proceed. Depending on the difficulties, we may need to adjust to the specifics of the steps mentioned in para 5. But, I have no doubt that we should be moving as expeditiously as possible in that direction.

cc: Mr. Habte

OFFICE MEMORANDUM

TO: Mr. Jose Botafogo G., VPE November 4, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Proposed Agenda for the Development Committee

I have relatively few comments regarding your memorandum of October 30th, forwarding the proposal for the agenda of the Development Committee meetings. The only general point I wish to make is that we need to take care not to overload the Development Committee with a series of unrelated and non-strategically relevant topics. The Executive Directors may not be the best source, and certainly not the only source, of judgment as to what is most fruitful for ministers to be discussing. If we are to be successful in having the Development Committee become a forum which supports Bank policy developments, then we need to take a fairly disciplined view of what can be achieved in each individual topic before we agree to list it on the agenda.

As to specific points:

- o Is it possible to call the second item on the agenda for April 1987 Environmental Aspects of Development and the third item The Transition Costs of Structural Adjustment.
- o Regarding the third item, I note the comments on page 3 of Mr. Burki's memorandum. The Poverty Impact Paper is a complicated paper and will be difficult to write. At the same time, there is little on the agenda. I recognize that there are EDs and others who believe that the Bank should address this issue more explicitly and that, of course, is the purpose of the paper. But, a good deal of material will be collected and different uses can be made of it well before the September discussion of the Development Committee. Moreover, a discussion on items 1 and 2 certainly is an adequate menu for a day's discussion, particularly if supplemented by the elements noted under status reports, which, after all, may also attract some interests. However, we will have a paper ready for Board distribution in early February, if you decide to retain this topic, too.
- o Regarding item 4(a), I will ask CPD to prepare a short note and will have that ready for early January. However, I would not plan to limit this to the Bank lending program, as suggested. The title of the item listed suggests a review of the implementation of growth-oriented adjustment programs. Our lending is only one component of this. Would you let me know how you wish to proceed on that.

I am not sure what the rest of the paragraph on page 3 implies, but, if the ministers wish to speak out on the debt problem more generally, this is certainly the place to do it, and no particular action on our part is required to prevent that from happening.

- o Regarding item 4(b), I would strongly urge that the standard table in the President's Report makes a clear distinction between net disbursements and net transfers. As you know, the latter is not an economically-sound concept, although we have all agreed that, under certain circumstances, we also need to take a look at interest payments and their burden on individual countries in difficulties. Nonetheless, despite the political rhetoric associated with this, we need to be quite careful not to further promote this concept which can only bring increasing grief to the Bank and its standing.

I had not been previously aware of requests by the Committee for yet another report on coordination, and I would hope that you would meet with Mr. Birnbaum of SOA to discuss what specifically is intended. I would look to SOA to provide the primary focus on this, although we may wish to supplement it with some comments on aid coordination efforts outside the Africa regions. I would also hope that in future we could avoid having the Committee repeat requests for coverage of the same topic at short intervals. That is a practice which used to exist in the Committee years ago and it led to redundancy, boredom, and unnecessary work loads.

cc: Mr. Burki

November 4, 1986

Messrs. Golan, INDDR
Churchill, EGYDR

Attached for your information is the bio-data of D.V. Kapur, who has extensive senior experiences in both industry and energy enterprises in India. A great many people in the Bank know him, and you can easily confirm his experience and managerial skills. While I do not believe that there are likely to be opportunities for direct employment, I think it is probable that Mr. Kapur can be of assistance in our restructuring efforts in Public Enterprises in a number of countries. I have told him that I am forwarding his bio-data to you and that you would be in touch with him if and when opportunities arise. You may also wish to share his availability with the West Africa and Latin America units working on public enterprises matters. I am also forwarding his bio-data to Personnel for inclusion in the Consultants Roster.


Ernest Stern

OFFICE MEMORANDUM

TO: Mr. C. de Kievit, PMDES

FROM: Ernest Stern, SVPOP *ES* -

SUBJECT: Mr. D.V. Kapur

November 4, 1986

Attached for your information is the bio-data of Mr. D.V. Kapur. My response is also attached for your information. Mr. Kapur is well-known to a number of people in the Bank, and he has broad experience in a variety of areas of interest to us. He is a well-qualified manager in the public sector with experience in industry, petro-chemical, and oil and gas. I think it would be appropriate for us to include him in the Consultants Roster. I have already advised Messrs. Golan and Churchill of his availability, in case consultancy opportunities arise in connection with our restructuring work in the public sector.

Attachment

OFFICE MEMO ANDUM

TO: Mr. Martijn Paijmans, VPA

November 3, 1986

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Program Coordinators - Generic Description

Subsequent to the meeting you attended where we tabled the revised proposal for this position, the OVPs reviewed the draft and endorsed it. A copy of the job description is attached.

I would appreciate it if this description can now be reviewed and graded as expeditiously as recent experience has shown to be possible. Based on this description, there should be no doubt that the position fully warrants a level 26.

Please also note the proposed change in title. If the description is approved, the title change should be processed for all incumbents.

Attachment

EXECUTIVE OFFICER - REGIONAL VICE PRESIDENT'S OFFICE
GENERIC JOB DESCRIPTION

1. The Executive Officer serves the Regional Vice President as Executive Officer and as Manager of the office of Programs and Budget, providing overall directions to its staff and work programs while delegating day-to-day responsibilities to subordinate specialists. His functions are as follows:

2. As Executive Officer for the RVP

- This Officer is a full and active member of the Region's Management Team, participating in the formulation of Regional management policy, objectives and priorities. He would also participate in decision-making processes which relate to the efficient management of the Region. In particular, he is responsible for managing the production function on behalf of the RVP; for managing the system of manpower planning and personnel administration in the Region and for deciding those administrative and management issues affecting more than one Department as defined by the RVP. Generally, the Executive Officer has delegated responsibility for:
 - o ensuring that work program formulation, development and delivery are carried out in compliance with Operations' policies, procedures, standards and schedules, and are responsive to the objectives and strategy approved by the RVP;
 - o ensuring that the program and forward schedule of work reflect the priorities of the Regional Management Team and represent a reasonably costed and implementable plan of work;
 - o reviewing program implementation and acting to coordinate/resolve issues of program development and delivery;
 - o ensuring that product quality control system and procedures are in place and working effectively;
 - o resolving management issues, including such matters as, staff training and development, assignment and recruitment, and other personnel administration matters, or for formulating recommendations to the RVP, where they involve more than one Department;
 - o acting as interlocutor between the RVP and other members of the Management Team on Regional management issues and, in this capacity, organizes and chairs task groups of Managers and senior staff, as necessary, to address management and process/production/cost related issues; and
 - o representing the Region's interest externally with respect to a wide range of intra-operational issues and support Department matters.

3. As Manager of the Office of Programs and Budgets

- o manages the system of planning, programming, budgeting, monitoring and control used to define, implement, and manage work and costs in the Region;
- o manages the Regional system of manpower planning and personnel administration, e.g., training, PPR process, etc.;
- o manages the program of office technology;
- o administers Field Office policies and procedures, and oversees Field Office logistics and operations;
- o participates and represents the Region in the planning and designing of Operations' processes, such as the CAM and the MIS, at the Operations complex level and directs the implementation of these processes at the Regional level;
- o manages the interaction between the Region and other Vice Presidential units responsible for resource related functions.

4. The problem solving aspects of this position require that the incumbent have a thorough understanding of and high level personal experience in the areas of management and Bank operations, the ability to relate this knowledge to Regional management issues and processes, the capacity to anticipate issues and preempt problems, the confidence to exercise initiative without prior consultation with the RVP, and the interpersonal skills to forge effective relationships with senior and line managers both in and outside of the Region. In order to carry out his work, it is essential that the Program Coordinator brings to the job a seasoned knowledge of the Bank, operations management experience, a proven record of leadership and a stature in Operations which will engender the respect of the other members of the Regional Management Team as well as of Regional Managers in general. The candidate pool for this position would be composed of Operations Division Chiefs and other senior staff with operations experience at the Division Chief level, and staff eligible for immediate promotion to this level.

11/4/86

OFFICE MEMORANDUM

TO: Mr. J. W. Stanton

November 4, 1986

FROM: Ernest Stern *ES*SUBJECT: Multilateral Trade Negotiations

In your memorandum of October 31, you asked for comments on the proposed Bank office in Geneva to support the GATT negotiations over the next four years. Briefly, I do not support the proposed program for the following reasons:


- (a) I have no doubt that we can, at the level of general conversation, persuade the other agencies and bilateral members that our program is non-controversial. But, I do not believe that this will be the case in practice. Trade negotiations are complex and emotionally charged, and there is no way, in my view, in which we will be able to avoid a partisan role. This would be highly undesirable.
- (b) I disagree with the assessment of our capacity. We know very little about the issues in the service areas, in the areas of technology and taxation, all of which will be of great relevance. To build up practical information will take a great deal of time and effort, and we have no comparative advantage for doing it.
- (c) The activities in Geneva will have to be supported by considerable work here, which will replace other activities.
- (d) It seems to me that both the GATT and the UNCTAD have a responsibility to service their members for precisely the purposes proposed. While there is no doubt that the Bank is interested in a successful conclusion of trade negotiations, it does not follow from that that we have a responsibility to provide basic analytical underpinnings for individual negotiations.
- (e) This program is expensive, \$ 3 million per year. It is inconsistent with the zero-based budget contained in the recent budget framework paper. It is always easy to argue that relatively small sum can be absorbed. But, if we are going to be serious about budget constraints, we cannot continue to take on such tasks.

I do not doubt that the developing countries, and perhaps all of our members, welcomed the President's statement in Punta del Este that we would assist our member-countries during the negotiating process. There is, after all, no particular reason why it should have generated an adverse reaction in that setting. Moreover, I do not doubt that we could be helpful. But, our contribution will be marginal to the outcome and we, therefore, ought not to take on this additional task.

You also enquired about alternatives. I can only suggest that if we consider the UNCTAD secretariat technically incapable of discharging its responsibilities, we could consider how we might provide some technical advice.

TO: Mr. Barber B. Conable

November 3, 1986

FROM; Ernest Stern 

SUBJECT: Medium-Term Budget Strategy

1. The budget framework paper, which offsets growth with matched savings, responds to the concerns of the Directors representing our major shareholders. However, the paper is too sanguine about the costs of achieving the proposed savings and creates the impression that these savings can be realized with little or no real cost. By doing so, it avoids all issues of relative priorities. In essence, the paper argues that we can continue to do everything we are doing; we can continue to grow in volume; and we can respond to the increased demand for services by doing things more cheaply. This is unrealistic. Costs are real and involve hard choices between important tasks and between the short and long run. That is not to say that these choices should be avoided. To the contrary. They should be identified and decided.

2. Before dealing with the main issues and assumptions in the paper, let me make two general points:

- o I think you should know that the job, as seen through the eyes of Operations' managers and staff, is made up of increasing demands, increasing complexity, and static resources. They see the problems of the developing world are growing and the financial and budgeting resources, and support for, the institution, declining. They see the problem of high debt in the middle-income countries as placing difficult demands on the institution's capacity to respond. They see the adjustment process growing in Africa and elsewhere. They see the need for devoting ever increasing time and effort to mobilize both private and concessional capital to support the adjustment and investment programs of our borrowers. They understand that certain of our Board members believe that we are not as efficient as we should be, but they do not see evidence of excess capacity, delayed responses, or excessive concern with quality.
- o There are opportunities to reduce costs and to hold down budget growth, both inside and outside of Operations. But, any institution of our size also must consider scaling back service, capping growth in particular product lines, and eliminating some services, if necessary. After nearly twenty years of dealing with new initiatives through growth, it may in fact be time to cut back in selected areas or in areas of lower priorities.

3. The specific budget proposals in the paper call for a net zero increase in positions in Operations over the next three years and for Operations to:

- (a) expand the number of projects to the Board at an average annual rate of 4.2%;
- (b) expand IBRD's lending volume by 40% (from \$15.0 to 20.5 billion); and
- (c) take on a number of new initiatives involving some 37 additional positions.

4. The growth in volume and new work associated with these initiatives is estimated to require 130 positions over the FY87 budget base. The resources to deal with these additional requirements would come from:

- (a) a change in the PCR policy leading to a reduction in the number of PCR required (saving 15 positions);
- (b) reductions in Operations' staff working on office technology and the programming and budgeting function (saving 10 positions);
- (c) the redesign of the Loan Officer's job (saving 40 positions, or about half the total processing work currently being done by Loan Officers);
- (d) a reduction of 25 positions related to general productivity increases in ESW and other "non-lending" work program areas; and
- (e) a reduction in 33 positions in OPS and EIS involving cuts in advisory, policy and research work.

Missing Elements

5. One essential point is that it is not possible to respond to these proposals in terms of a detailed work program because so many other elements of the budget framework are not specified. For instance, there is no indication of the dollar budget guidelines which might be involved (e.g. are we looking for a zero growth dollar budget?) or the policies affecting lower staff grades. This is important in judging whether additional consultant resources might be available to offset unrealistic reductions of positions and whether some of the work done by positions to be eliminated can be done, at a lower cost, by lower level staff. The absence of a complete framework also makes it impossible to judge whether we will be in a position to trade higher cost services, such as those through the UN Cooperative Programs, for lower cost, more efficient Bank resources. Finally, there are a number of financial programs which do not show up directly as position costs in our budget system but which nonetheless have staff implications. An example of this is our grant programs for NGOs administered by External Relations. Without a dollar budget guideline and a policy view on these matters, the choice in savings to be made is likely to be skewed.

Assumptions in Growth and New Initiatives

6. The volume growth assumptions with respect to IBRD and IDA lending are consistent with our present plans. But, I do not believe they are consistent with the savings proposal. If we were to have only the staff resources indicated, I believe we would have to cut back our lending expectations, particularly on the Bank side.

7. In addition to this general problem, which can only be assessed after we have a better idea of the total budget framework, some of the assumptions underlying the analysis are not realistic. I doubt, for example, that the average loan size in EMENA and in the Asian Regions will increase by 25-30%, or that it is either possible or desirable to increase the number of projects in Africa to the level projected. It is not clear from the paper what unit costs are being assumed for lending production work, but I do not see any evidence that would support the assumed decline in project losses (the cost of dropped projects). In fact, the risk of losing traditional projects is increasing as lending programs become hostage to the adjustment process in unstable political and economic environments. We do not know the growth requirements for ESW and other output as we deal with increasingly complex adjustment issues and demand grows as our role expands in coordinating public investment reviews, and monitoring for donors and banks alike. We could meet some of this growth through further reducing work in selected middle-income countries, but this will have substantial political consequences, adversely affect the image of the Bank, and weaken our capacity to lend.

8. On new initiatives, we can, of course, limit the investments to the level of specific budgetary increases, or fund them at higher levels, by making reductions in other service areas, but it is not yet clear what these initiatives will in fact cost. It is clear, for instance, that an expanded effort in resource management and the implementation of our planned programs for women in development (not provided for) cannot be mounted with the resources shown. But these are not the only initiatives to be considered. Among others, not mentioned, I would include increased support for debt management; expansion of Africa-wide analysis and policy work; expanded donor coordination at the agency level (supplementing country level coordination); increased work on public sector restructuring and privatization. Some growth of field office staff is allowed (although it is not clear how much), but we are already well behind our objectives for Africa and we now must place people in Mexico, Brazil and some other middle-income countries where our programs have become very large and complex. These new initiatives are not of the dramatic kind and, in the past, a substantial portion of funding could have been found through internal redeployment. However, since this potential source has already been used to fund our growth requirements and other specified initiatives, it is not available for these purposes.

Assumptions and Savings for Redeployment

9. Some of the assumptions on savings are not well founded.
- o The change in the PCR policy (item 4a) requires Board approval which I consider unlikely. In any event, we should not be denied these 15 positions until we have decided internally that we wish to reduce PCR coverage, which is a major change in our quality control discipline, have the agreement of the Director-General, OED, and have Board approval.
 - o We have redesigned and substantially streamlined the loan processing procedures, and we expect that this will reduce the Loan Officer workload. But it will not cut it in half. The redesign means that most of the work will shift to Projects and Projects' staff will take over the responsibility for additional processing functions. That is, some of the work related to loan documentation, Board presentations, and implementation matters will be shifted, not eliminated. Moreover, an important rationale for the restructuring of the loan process is to focus the Program Divisions more explicitly on country strategy work. Part of that involves creation of Senior Country Program Officers to assist division chiefs in dealing with adjustment, policy and coordination. This is in process. While substantively essential to a more effective country focus, it also is a response to the frequent statements of Board members that we need more senior, experienced staff to deal with countries on these sensitive issues. The net effect is that not more than perhaps 20 positions can be expected from this category. (Reduction of 40 positions and a new initiative, if you will, of 20 positions).
 - o The reduction of 25 positions in Economic and Sector Work (ESW) cannot be justified on productivity grounds. "Productivity" is very hard to measure in this "soft" area. No doubt, efficiency improvements are possible and we are continuing to struggle to achieve them. But, to project no net growth in this work is a policy choice. It seems to me that the factors requiring an increase are much greater than allowed for. I must stress that this work is the foundation not only of our work in adjustment countries, as the budget paper states, but in all other countries, to support a growing project pipeline for increased project lending. Quite aside from adjustment related issues, we need a substantially growing volume of sector work to underpin our project work and to ensure the maintenance of suitable sector policies. On balance, I would estimate that after taking into account potential savings, we will need to increase resources in this area by about 30 positions. Some of the savings to be affected are not within the control of Operations. For instance, a decision to restrict the publication of a variety of reports and working papers would save staff time, but it has not been possible to reach agreement on this. On these,

and similar issues, we need a coordinated set of decisions. If we do not come to grips with them, we will not achieve the intended savings, with the result that higher priority activities will be reduced to achieve the budget objectives.

10. Aside from the above comments, which we will be glad to expand on with PBD, there are other more detailed differences of views on the underlying assumptions. But there are two basic points I want to stress:

- o Growth requirements to meet new demands are going to be higher than assumed, and
- o To deal with them, under constrained or zero growth budgets, we cannot rely only on presumed savings. We must, in addition, consider capping certain product lines and eliminating certain services. Anything we touch will be controversial. Therefore, we need to make explicit decisions on these matters internally and explain them to the Board. If we do not, we will be entering an era of endless complaints about inadequate response capacity.

Items for consideration inside and outside Operations in such an effort include:

- (a) changes in the volume of resources we put into small country programs (we have always, for political reasons, had a small country bias in our resources allocation process);
- (b) reducing the "standby" and start-up capacity for countries where we have agreed to disagree on adjustment policy and programs;
- (c) reducing the level of free technical assistance.
- (d) eliminating free technical assistance to graduated countries;
- (e) pruning our research program;
- (f) reducing our publication volume;
- (g) eliminating our grants program;
- (h) reducing our growing participation in international conferences.

These are not the only candidates and may not be the best. But what basically drives our expansion is the long-standing view in the Bank (fully supported by our members) that we should respond to any requirement of our borrowers. If we are to constrain our growth in the long-term, we also need to have a much firmer view about what we can and cannot undertake.

cc: Mr. Stanton
Mr. Wood

The World Bank

ERNEST STERN
Senior Vice President
Operations

November 3, 1986

Mr. Ruddy

Mike -

The attached memo is self-explanatory.

Please make certain that the four staff members listed will have completed and submitted their staff profiles by c.o.b. November 14.

Advise me on November 17 that this has been done.

A handwritten signature in dark ink, appearing to be a stylized name, located at the bottom right of the page.

November 3, 1986

Mr. Husain

Shahid:

Can you and Vinod join me for lunch with Erb, et al on Tuesday, November 18. We will discuss SAF policy aspects (e.g., fund raising; standby equivalence, etc.). Nonetheless, I would also like to have a current list of country problems, prior to the meeting, for my information since these tend to get tossed around at these sessions.

Ernie

cc: Mr. Dubey ✓

The World Bank

ERNEST STERN
Senior Vice President
Operations

November 3, 1986

Mr. de la Renaudiere

Xavier -

The attached memo is self-explanatory.

Please complete your staff profile by
November 14 and submit it. Confirm to me that
it has been done.

In addition to para 3(a) in Mr. Clarke's memo,
I do not intend to sign any travel requests
for non-respondents.

A handwritten signature in black ink, appearing to be 'A. Stern', is located at the bottom right of the page.

OFFICE MEMORANDUM

TO: Mr. R. A. Clarke, Acting VPA

FROM: Ernest Stern, SVPOP *ES*

SUBJECT: Staff Profile Project

November 3, 1986

I am returning your memo of October 29 with its attachments. I have detached the four pages relating to my front office.

It has been a long-standing PMD practice to deal with unit managers directly on implementation issues. I suggest that we maintain the same practice in this case, too.

Should you wish to take further action with non-respondents, I will be pleased to be consulted on that.

Attachments