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CLAUSEN Senior Management Council 1983

(8)

RECORD
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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SEC/MC83-25
(Revised)

TO: Senior Management Council

DATE: May 31, 1983

FROM: T. T. Thahane, Vice President and Secretary

SUBJECT: The Relations Between the Executive Directors and Management in The World Bank: Some Actions for Consideration

1. The attached paper on Board/Management relations is submitted for consideration by the Senior Management Council following a review by the Managing Committee. The Managing Committee underscored the importance of making all managers sensitive to the need to keep the relations between Management and the Board smooth. It is expected that after incorporating any comments by the Senior Management Council, the paper could be circulated to Department Directors who can also consider actions to make their staff more conscious of keeping the Executive Directors informed in accordance with the relevant Manual circulars.

2. The paper sketches the legal and historical framework of the interaction between the Executive Directors and Management, with a view to identifying the nature and causes of some of the strains in the relations between the Board and Management; it puts forward for consideration by members of Senior Management Council and staff, some actions that could be taken to improve these relations or keep them smooth. Included in the actions are some practices which are already carried out by some individual managerial units but which need to be generalized across the Bank. Other actions are already incorporated in the operating Manuals but compliance by the different organizational units is uneven.

Attachment

THE RELATIONS BETWEEN THE EXECUTIVE DIRECTORS AND MANAGEMENT IN THE WORLD BANK; SOME ACTIONS FOR CONSIDERATION

Introduction

1. The difficulties inherent in the relations between a resident Executive Board and a strong, assertive Management are as old as the World Bank itself. Indeed, the first President of the World Bank, Eugene Meyer, was so frustrated by having to spend "time and energy... in battling with the Board for leadership of the Institution", that he resigned after only six months in office because of "his feeling of having responsibility without authority, of having to battle the US-led Executive Directors for stewardship of the Institution."1/ Before accepting the job as the second President of the World Bank, John McCloy sought from the Executive Directors, a declaration outlining "the power of Management to manage" and the right of Executive Directors to exercise "general supervision without interference in the conduct of the business" of the World Bank.2/ Although his condition was grudgingly accepted by the Board, he continued to encounter difficulties in his relations with the Board just as his predecessor had.

2. Such difficulties between the Management and the Executive Board have continued throughout the history of the World Bank, although in recent years considerable improvement has occurred. However, much still remains to be done to ensure that Management and staff can work cooperatively with the Executive Directors in carrying out the objective of the World Bank, to accelerate economic development and alleviate poverty in its borrowing member countries.

3. The purpose of this paper is to review briefly the background, nature and causes of the stresses and strains that have characterized the relations between the Executive Directors and Management, and to suggest actions that might be considered for implementation by the members of the Senior Management Council and staff to help improve the quality of the relations. The paper is divided into three sections: Section I reviews the background; Section II discusses the nature and causes of EDs' concerns; and Section III outlines the actions that could be carried out by different members of the Senior Management Council and their staff.

1/ Mason and Asher, "The World Bank Since Bretton Woods", the Brookings Institution, 1973, page 42.

2/ Ibid, page 50.

I. BACKGROUND

4. With regard to organization and management, the Articles of Agreement of the World Bank and of the International Finance Corporation recognize three separate organs for decision-making: they are, the Board of Governors, which consists mainly of the Ministers of Finance of the member countries; the Executive Directors, who are appointed or elected by the Governors every two years; and the President, who is selected by the Executive Directors. The following paragraphs discuss the respective responsibilities of these bodies.

5. The allocation of responsibilities between the Governors and the Executive Directors is clearly spelled out. The Board of Governors has delegated to the Executive Directors all of its powers with the exception of seven powers which are reserved exclusively for the Governors by the Articles of Agreement.3/ These reserved powers relate to: admission of new members; increases in the capital stock of the Bank; suspension of a member; deciding appeals on interpretations of the Articles of Agreement rendered by the Executive Directors; entering into cooperative agreements with other international organizations; permanent suspension of operations of the Bank and distribution of assets; and allocation of net income of the Bank. In addition to these reserved powers, the Executive Directors have over the years developed a tradition of referring to the Governors certain matters that are politically sensitive or involve substantial financial outlays by the members. Examples include decisions to increase the capital of the Bank whether through selective or general increases.

6. Unlike the clear and specific allocation of powers between the Board of Governors and the Executive Directors, the Articles of Agreement discuss only in general terms the respective roles of the President and of the Executive Directors. The President is recognized as the "Chief of the operating staff" who is responsible for conducting "under the direction of the Executive Directors, the ordinary business of the Bank." 4/ While the President is responsible for organization, appointment and dismissal of the officers and staff, he carries out this responsibility subject to the general control of the Executive Directors. The vagueness of these provisions on the roles of the President and of the Executive Directors, gave rise to a series of difficult negotiations between the Board and Mr. McCloy when he assumed the Presidency. The basic understandings that emerged were incorporated in a memorandum on organization and loan procedures that established the prerogative of Management in loan processing and the role of Executive Directors to decide "all matters of policy in connection with the operations of the Bank, including approval of loans." Today this understanding is reflected in the prospectuses of the Bank which contain the following paragraph:

> "The President is selected by the Executive Directors. Subject to their direction on questions of policy, he is responsible for the conduct of the ordinary business of the Bank and the organization and dismissal of staff."

3/ Article V, Sections 2(b) and 4(a) of IBRD Articles of Agreement and Section 14 of the By-Laws.

4/ Article V, Section 5(b) of IBRD Articles of Agreement

7. Among the basic understandings reached between the Board and Mr. McCloy was an agreement which stated that Management would be "responsible for developing recommendations on all matters of policy regarding decisions by the Executive Directors." Whenever a decision on a question of policy was necessary with regard to the operations of the Bank, the President was to submit such a question to the Executive Directors with a recommendation of the Management on the action to be taken. However, any Executive Director could at any time propose for discussion and decision any matter of policy.

8. Because of the generality of the description of the respective roles of the President and of the Executive Directors in the Articles of Agreement and in the understandings reached between the Executive Directors and Management over the years, the quality and nature of the relations between the two parties have been affected at any given time by the personalities, styles and professional preferences of each Board member and that of the President. Commenting on the relations between Management and the Board in general, Mason and Asher observed that "Management's objective is inevitably to translate its plans into action and to pursue its business with as much backing or as little 'interference' as possible from its Board of Directors. The Board, if it has any conscience at all, wants to be more than a rubber stamp; at least some of its members will want to alter certain policies or get into 'operational details'."5/

9. Further, to ensure that the Executive Directors can discharge their oversight responsibility within the Bank, the Articles provide that they will "function in continuous session at the principal office of the Bank."6/ This full-time, resident nature of the Board of Executive Directors distinguishes the World Bank, as well as the International Monetary Fund and the regional development banks whose Articles were modelled after those of the World Bank, from any modern corporate organization. Another distinction relates to the fact that, while the Executive Directors represent the shareholders, they also serve as officials of the institution.

10. Despite occasional setbacks, the evolution of Board/Management relations has led to a consensus on the areas now regarded as exclusive prerogatives of Management and those areas in which the President and the Executive Directors are considered to have joint responsibilities. It is now accepted that only the President can make lending proposals; this includes how much to lend, to which country, and for which sectors. While no Executive Director can make these kinds of recommendations, their collective role is to approve or disapprove the proposals or to offer suggestions for improving or changing the quality, distribution, and focus of future Bank operations.

11. The process of formulating changes in lending and operational policies in the World Bank is evolutionary in that Executive Directors' comments or suggestions during consideration of a particular project, get incorporated in future projects in that country, or in others where similar projects are under preparation. Through a Summary of Discussions that is prepared following each Board meeting, the views of the Executive Directors are conveyed to other members of Management and the staff. Thus, through their deliberations, the Executive Directors formulate and shape the Bank's lending and operating policies.

5/ Mason and Asher, "The World Bank Since Bretton Woods", the Brookings Institution, 1973, page 87.

6/ Article V, Section 4(e) of IBRD Articles of Agreement.

12. One area where a consensus is yet to emerge on the respective roles of Management and the Board relates to the formulation of major policies outside the parameters of lending proposals. Different Executive Directors have felt that, while the Articles of Agreement give them responsibility for the conduct of Bank's operations, Management has exercised effective power and control over all aspects of the Bank's work, and has confined them to deliberations, advice and approval of Management's recommendations. They contend that Management takes as much time as it needs to formulate and prepare policy proposals without any input from them. When all the work is completed, Management presents its proposals/recommendations to the Board with an air of finality or ultimatum. There is a strong feeling among the Executive Directors that over time, the role of the Board is pro forma, giving a stamp of approval to Management's recommendations. They argue that the Board is brought into the process of policy-formulation too late, and it is given three or four weeks to say "yea" or "nay" to complex issues which have far reaching implications for the countries they represent.

13. Management, on the other hand, is reluctant to involve Executive Directors early in the process because experience has shown that Executive Directors have sometimes taken rigid positions on certain options on the basis of very preliminary and tentative analysis Management had furnished in the early stages. At times, when complete staff work later indicated final recommendations that differed from those based on preliminary analysis, serious conflicts between the Management and some Executive Directors have resulted. For example, during an informal briefing for Executive Directors on the FY84 budget, Management pointed out that efforts would be made to restrict the administrative budget to about 3 percent real growth. It was also emphasized that no firm commitment to that figure could be made before budget proposals were received from all the Bank's managers. Despite this and other qualifications surrounding the 3 percent figure, a number of Executive Directors who represent major shareholders regard this figure as the upper limit for the FY84 administrative budget. Their contention, if accepted, could prevent Management from recommending an administrative budget with growth higher than 3 percent in real terms, even if fully justified by a full assessment of all factors.

14. Thus, regarding relations between Management and the Board, it is essential that senior managers appreciate the nature and causes of Executive Directors' concerns and devise ways to give the Board participation in policy formulation and decision-making processes without at the same time pre-empting Management's freedom to make independent recommendations to the Board after taking into account the needs of the borrowing members, the capacity and needs of the institutions to meet them and the circumstances of the major donor countries. The line to be drawn between the operational responsibility of the staff and management and the role of the Board is thin, and senior managers should bear in mind the general considerations outlined above in dealing with individual policies or projects. Some areas of particular concern are discussed below.

II. NATURE AND CAUSES OF BOARD'S CONCERNS

15. The nature and range of the causes of Executive Directors' concerns have not changed much over time, even though different issues have dominated Board/Management relations from time to time. Many of the current issues are discussed in this section.

16. Some factors which influence the perceptions and relations between the Directors and the Management and staff are related in part to the respective cultural and professional experiences of both groups. Most Executive Directors, for example, come to the Board from senior positions in the civil services of their governments or from parastatals where they commanded managerial authority; suddenly finding themselves without the same sort of responsibility can be quite unsettling, hence the desire to get more and more into managerial or operational details.

Information Exchange

17. One area frequently cited by the Executive Directors as problematic in their relations with the staff is information exchange. In a memorandum submitted to the President in March 1980, Executive Directors complained about the process of information exchange with the staff. They stated that, when asking for information from the staff, they often felt as if they were begging because the staff generally appeared reluctant to give them answers. Their perception was that the staff was suspicious of their intentions and often considered their requests as going beyond the information necessary to enable them to discharge their duties. On the other side, the staff complained that the manner in which requests or questions were put by the Directors sometimes seemed designed to embarrass the staff.

18. The perceptions that surround the process of information exchange are made worse by the fact that Board members change every two or three years, and new Directors sometimes make the same requests for information that were made by their predecessors a short time before. The staff sometimes find it difficult to repeat this learning process with new Directors. Another effect of the frequent Board turnover is the difficulties it creates for the staff to establish and maintain good working relationships with the Executive Directors.

Policy Formulation

19. A major complaint of Executive Directors is that they are excluded from early consultation in the process of policy formulation; specifically, they wish to be consulted at the stage where Management is considering options and not when final conclusions have been reached. In a way, Executive Directors not only wish to be a part of the process, but also seek to influence the outcome of that process. Although Management must be free to make such recommendations as it considers appropriate, participation in the process by Executive Directors is desirable to assure that their questions are addressed and that they have time to consider the issues involved. It is difficult for Management to find a satisfactory way to bring

Executive Directors into early consultation while still retaining the freedom to make different proposals, should circumstances warrant, but an effort should be made to achieve a workable compromise. Although compromises on mechanisms of consultations may be reached with one group of Executive Directors, such informal understandings may be affected by a change in the composition of the Board.

The Budget

20. The role of the Board in the budget process has always been controversial, since the budget is an instrument for establishing policies or changing the direction of the institution. Different Executive Directors, for different reasons, wish to be involved as early as possible in the budget process. Directors representing non-borrowing members (Part I) are often interested in the levels of lending because of their possible impact on the finances or budgets of their respective members in terms of the release of local currency, callable capital, new capital increases or borrowings from their capital markets. To the extent that the global economic environment deteriorates and high lending levels by the Bank would exacerbate the budgetary and capital markets problems faced by their countries, they often seek to influence lending levels downward. Directors representing borrowing countries (Part II), seek to influence lending levels upward, while keeping costs as low as possible. In the past, Part II Directors have not been anxious to get into the budget process early. They also have resisted discussion of allocation of lending among countries in the Board since this would be very decisive. Part I Directors, on the other hand, have been eager to discuss these issues. In general, Executive Directors representing borrowing countries have relied, in the past, on the Management because they considered it sympathetic and committed to accelerating the development of their countries.

21. It is important to note that today pressures by all Executive Directors to participate early in the budgetary process are increasing and will continue to do so in the future. The reasons for this trend have more to do with the budgetary problems of most developed countries and increasing financial needs of developing countries, than the individual preferences of Board members. These pressures will take many forms, including those aimed at establishing a Board Budget Committee, which could impair the powers of Management to make recommendations to the Board. Management will have to decide how to involve the Executive Directors in the budget process at an earlier stage without making independent Management recommendations impossible. There are difficulties in this as any preliminary figures given out will tend to stick and become almost impossible to change without a feeling that Management has not been fully candid and open. While perceptions that Management is withholding some information during the consultation process on the budget are unavoidable, flexible procedures must be evolved and understandings reached on the best way to meet the Executive Directors' needs and to preserve Management's independence.

Operations

(i) Country Programs Discussions

22. A large number of the Part I Directors feel that the Board should spend more time discussing country lending programs, resource allocations, and development strategies as opposed to projects. Many are anxious to know the planned lending levels among different countries. Part II Directors are opposed to these discussions and consider them inappropriate because they may lead the Board into passing judgments about governments' social, economic and political choices. Although Management stands ready to comply with any consensus on the format and content of such discussions, there is a wrong perception that Management is using Part II Directors' reluctance as an excuse to avoid discussions of country development strategies and how the Bank's lending efforts fit into those strategies. This is a problem of perceptions, and greater efforts will have to be devoted to correcting it.

(ii) Suspension of Operations

23. Executive Directors feel that Management should not take important decisions such as suspension of commitments to member countries without informing or consulting the Board. This was prompted by an incident in 1979 when the Bank indicated to the Chairman of the Subcommittee on Foreign Operations of the US House of Representatives, and to the Governor of the US, that the Bank did not plan to make any IDA commitments to a particular country in FY80. The Executive Director representing that country had not been given advance notice of the expectation not to commit IDA funds to the country concerned. Following this incident, most Executive Directors felt that a Director representing a country to which commitments or disbursements were to be suspended should be informed, before anybody else. Although the procedure has now been adopted whereby Management informs the responsible Executive Director at the time that a decision is taken to suspend commitments or disbursements, there are still some lapses in compliance. The rest of the Board is normally informed through the Monthly Operational Summary or some other appropriate means.

(iii) Lending Information to Executive Directors Representing Borrowing Countries

24. A prevalent complaint of Executive Directors representing borrowing countries is that they are not kept fully informed about the Bank's operations in their countries. They have sought information, exclusive of proposed lending figures, on the Bank's strategy, status of project preparation and implementation in order to plan their visits and discussions around country assistance issues. To solve this information gap, some regions have made it a practice to hold regular and periodic consultations with Executive Directors representing countries in their Region, in order to brief them on the Bank's operations in those countries. Since the practice is not uniform among regions, more needs to be done to ensure that Executive Directors are brought up-to-date on the main features of the operations of the Bank in the countries they represent.

(iv) Mission Travel

25. Executive Directors representing borrowing countries often complain that contrary to the existing staff rules on Mission Travel, the staff does not inform them in time about travel to their countries. Sometimes they learn from the Monthly Report on Bank/IDA Operations that a mission has been to visit their countries and even returned to Headquarters. This deprives them of the opportunity to seek pre-departure briefing or to plan their visit in order to be present in the country about the same time. Many Executive Directors feel that they can play a useful role in helping the staff resolve certain operational problems between the Bank and their countries, if they are informed about the problems the Bank is having. The compensation for nationalized properties in Ethiopia and the improvement in relations between Nigeria and the Bank are often cited as examples. Part I Directors also complain that they often are not informed of staff travel to their capitals, either in relation to co-financing or some other bilateral aid arrangements. They are sometimes embarrassed when they receive queries from their authorities. Since appropriate Bank rules exist to cover all of these cases, the problem is one of compliance.

Release of Management Initiatives, President's Speeches or Bank Publications to The Press without Advance Notice

26. Executive Directors resent reading in the press about new Bank policy initiatives or major publications, when they have not been informed or given advance copies. This embarrasses them when their authorities or the press ask for more details and they are forced to claim ignorance. In the case of the President's speeches, a procedure for providing advance copies is now in place, while for publications the practice is irregular. Although a tradition has evolved that the President is free to state his views on any subject without prior clearance by the Executive Directors, it is essential that the Executive Directors, as a matter of courtesy, be given advance copies or information on any major initiatives that are being contemplated with respect to the press or the public in general.

Feeling of Being "Outsiders"

27. Executive Directors feel strongly that a large number of Management and staff regard them as "outsiders" who should be tolerated until their terms are over. It is their perception that, contrary to the Articles, Management and staff do not regard them as an integral part of the institution's decision-making system and as officials reponsible for conducting the general operations of the Bank. This perception is hard to deal with since it hinges very much on the attitudes and behavior of the staff towards Executive Directors and on the individual Board member's understanding of his own responsibility.

28. To sum up, the quality of the relations between the Management and staff on the one hand, and the Executive Directors on the other, is affected by various attitudes and perceptions formed during informal and formal interactions between the two groups. Although the working relations are generally

good, there have been a few cases in which the Secretary's Department has had to become involved in resolving some misunderstandings, especially in the area of access to information. The Executive Directors have sought to improve this relationship by seeking to establish new procedures or committees. On five occasions since 1947, the Board has discussed procedural questions aimed at clarifying the respective roles of Management and the Board and at establishing rules to govern the interaction of the EDs and staff. Some staff rules have been incorporated in various manuals, but there have been several lapses in complaince. At the conclusion of a lengthy Board discussion on "Board Procedures" in 1973, the Chairman summarized the issue of relations between Management and Executive Directors as follows: "So we constantly have the necessity of trying to insure we tailor the relationships between the Executive Directors and the staff to the desires and the needs of the Directors while at the same time avoiding encroachment by the Directors on the operational responsibility of the staff. And this is a problem, it's a little bit like the problem of the US Constitution. There are just a lot of gray areas. And sometimes it is nice to leave these things gray.... But is does require constant attention to this issue of relationships."

III. ACTIONS TO BE CONSIDERED TO IMPROVE BOARD/MANAGEMENT RELATIONS

29. The onus to improve the climate of relations between Executive Directors and Management lies with Management, especially the members of the Senior Management Council. The reason for this is simple: Executive Directors rotate every two to four years while Management stays in place. The vagueness of the Articles in defining the respective roles of the Executive Directors and of Management leaves each Board member free to define, when he arrives, the concept and nature of his duties relative to those of Management. These concepts and preconceptions about their duties are as many as the Directors themselves, and are shaped by their past work experiences. It therefore behooves Management to provide extensive orientation on current and past practices in order to create an environment in which mutual trust between Management and Board members can develop. This is a slow and continuous process in which the Secretary's Department is engaged all the time.

30. The issue facing Management is how to create an environment that will be characterized by mutual trust, candor and a free exchange of views between the Executive Directors and Management, and what role each member of the Senior Management Council can play in the creation of such an environment. The answers to both questions are not easy, but one approach would require each member of the Senior Management Council to prepare his own monitorable action plan. It would address not only those items within his own area of responsibility or operation, but also some of the concerns of the Executive Directors that are institution-wide. The problems discussed previously, as well as the suggestions which follow, could be used by each senior manager as a basis in preparing his or her own action plan.

Specific Actions

Issue 1: More Participation by Executive Directors in Policy Formulation

31. The main concern of the Executive Directors has been the lack of opportunity to have their views considered in the process of policy formulation. They resent their pro forma role of saying "aye" and "nay" at the final stage, without time to consider the issues properly. Because of potential difficulties of bringing Executive Directors at an early stage into the process, it is important to strike a right balance to ensure that Management's role is safeguarded, while reducing the Executive Directors' frustrations and potential adverse effects on the outcome of Board deliberations.

32. In the past, Management has engaged successfully in well-planned and staged advance consultations with the Executive Directors on complex and sensitive issues which involved considerable resistance in the Board. The consultations produced smooth discussions and successful decisions. Some examples follow:

(i) Administrative Tribunal. Several informal meetings with the Executive Directors were held prior to the formal decision by the Executive Directors on the establishment of the Administrative Tribunal. These informal meetings permitted the Executive Directors to provide their views without having to seek official positions, and the Management's options remained open, especially on the scope of jurisdiction of the Tribunal. The Executive Directors welcomed this approach and were able to convince their Governors to vote in favor of establishing the Tribunal.

(ii) Representation of China. The sensitive issue of representation of China by the People's Republic of China was dealt with through "informal meetings" with the Executive Directors before the formal decision on May 15, 1980. Although some member countries formally voted negatively, the free exchange of views between the Management and the Executive Directors without formal record, permitted a successful outcome.

(iii) IBRD Capital Increase. Although the IBRD General Capital Increase was approved by the Executive Directors on June 28, 1979, there were many "informal meetings" on the subject, starting in November 1977, and involving such issues as: Growth Rate of IBRD Commitments; Outlook for Inflation; Frequency of Capital Increases; Interpretation of "Non-disruptive Adjustments"; Projected IBRD Financial Ratios with Alternative Capital Increases; IBRD Voting Power and Board Representation. These meetings were held in informal settings allowing Executive Directors participation without committing their Governments to a specific course of action.

33. *Proposed Actions*

(a) VPS will place greater emphasis on providing advice and guidance on a course of action to follow in dealing with major and sensitive issues, taking into account his consultations with the Executive Directors and their Steering Committee.

(b) The Secretaries of Management Subcommittees or Task Forces, when reviewing policy papers, would seek VPS' advice on the recommended course of action to be considered by the Managing Committee with regard to Board consideration of the paper.

(c) After approving a policy paper to the Board, the Managing Committee should normally consider how the paper should be processed through the Board.

(d) After Board approval of any policy paper, the Management should inform Executive Directors of the next steps with regard to press announcements or publications.

(e) In cases where bilateral consultations with the Executive Directors are to be held in place of informal meetings, the member of the Managing Committee presenting the policy paper should make arrangements with the VPS and the staff concerned to keep each other informed on the feedback.

Issue 2: Early Participation in Budget Process

34. The Executive Directors, especially Part I Directors, complain that the Management proposals on the budget are presented to them with a sense of "finality" and "ultimatum" and that they do not have sufficient time or necessary background to decide on the proposals. It is important that the Executive Directors have greater involvement in the budget process. The "restricted informal session" held on January 27, 1983, was favorably received by all Executive Directors.

35. *Proposed Actions*

Management should consider:

(a) continuing the process of holding more "restricted informal sessions" on the budget plans; and

(b) arranging other informal briefings that would achieve the objective of having the EDs participate in the process.

Issue 3: Reducing Feeling of Isolation and of Being "Outsiders"

36. The Executive Directors are an integral part of the Bank's policy and decision-making mechanism, and members of Management and staff should not regard them as "outsiders" who should be tolerated until their terms are over.

37. *Proposed Actions*

(a) The proposed Management Development Program should include sessions devoted to the role and status of Executive Directors in the Bank.

(b) Senior Management Council members may consider regular or periodic meetings and luncheons with Executive Directors concerned, to brief them on their respective operations.

(c) Social functions may be expanded to include an annual cocktail/ buffet dinner for Executive Directors and their spouses, members of Senior Management Council and their spouses.

(d) Some members of Senior Management should be invited to join the President in his periodic luncheons with groups of Executive Directors and Alternates.

Issue 4: Access to Information and Communication with Executive Directors

38. The Executive Directors are satisfied with the comprehensiveness of the present rules and procedures on the "Access to Information", but are irritated by what appears to be forced compliance by the staff. The Executive Directors are of the view that staff members are often reluctant to provide information of their own accord and this places the Executive Directors in the embarrassing position of having to "beg" for information and briefings.

39. *Proposed Actions*

(a) All Managers should stress to their staff the importance of compliance with Operational Manual Statement No. 5.05 relating to informational needs of Executive Directors. Some of the elements of this Manual Statement that require highlighting include:

(i) For countries for which the Bank has a lending program, the RVPs are primarily responsible for ensuring that the Executive Directors are kept properly informed;

(ii) For other countries, each member of Senior Management Council is responsible for ensuring that the Executive Directors are kept properly informed of activities for which he or she is responsible;

(iii) Executive Directors should be kept currently informed of important matters affecting their countries, and should receive at least as much information on Bank plans and programs as the officials of the countries they represent;

(iv) Information should be provided by the staff in advance of, as well as in response to, requests from Executive Directors;

(v) Executive Directors are to be informed of all prospective Bank missions and visits to their countries and all impending visits of delegations and important individuals from their countries to the Bank, whether for negotiations or otherwise;

and (vi) Executive Directors are to receive copies of correspondence from or to the officials of their countries and are to be informed of important discussions with country officials.

(b) Executive Directors representing borrowing countries should be kept currently informed of the status of current programs, future plans and problems concerning their countries. This regular information flow should be supplemented with meetings from time to time between an RVP and/or Department Director or Division Chief and Executive Director(s) concerned.

Issue 5: Release to the Press of New Policy Initiatives and Publications: Executive Directors' Involvement in External Relations

40. Executive Directors resent reading in the press about new Bank policy initiatives or major publications without first being informed or given an advance copy.

41. *Proposed Actions*

(a) VP, External Relations, and Directors of IPA and Publications should ensure that information on new Bank activities or major publications is provided to the Executive Directors in advance of a press release, as is being done in the case of the President's speeches. If and when a press tour to member countries is planned, VPER should consider whether or not to include some Executive Directors.

(b) VPER should consider a more expanded use of Executive Directors in the External Relations initiatives of the Bank, e.g. some Executive Directors from borrowing countries could appear before selected audiences in the Part I countries.

Secretary's Department
May 31, 1983.

SENIOR MANAGEMENT COUNCIL

May 27, 1983

Agenda for Friday June 3 Meeting at **10:30 am**

1. Monthly Financial Report
   1.1 Financial Report for April 1983.

2. Board-Management Relations
   ** 2.1 Memo (Thahane) May 31, 1983: Relations Between The Executive Directors and Management with attachment "The Relations between the Executive Directors and Management in the World Bank; some Actions for Consideration."

3. International Promotion of WDR
   (Oral presentation)

4. Other Business

5. Lunch (E Building, Dining Room No. 1)

** To be distributed.

FORM NO. 75
(9-78)

THE WORLD BANK

ROUTING SLIP	DATE: May 25, 1983

NAME	ROOM NO.
Mr. R. Southworth	E 1227

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

REMARKS:

Please find an attached copy of the Financial Report for the month of April 1983.

FROM:	ROOM NO.:	EXTENSION:
Michael J. Gillette	I-4-174	61053

FIS/MC83-35
CONFIDENTIAL

MONTHLY FINANCIAL REPORT FOR APRIL 1983

A. HIGHLIGHTS

1. IBRD

- Borrowings: On target (Section B.1).

- Disbursements: In FY84 Budget memorandum, FY83 forecast disbursements to countries are at $6,700 million, some 8% below the original FY83 budget forecast of $7,300 million. (Section B.2.)

- Loan Service Payments: Slight improvement since March report. (Section B.2.)

- Capital: On target (Section B.3.)

- Investments: Latest estimates for returns through end FY83 are lower than earlier estimates; this could reduce somewhat the projected net income for the current year of $800 million. (Section B.4.)

- Net Income: Meeting the estimate of $800 million net income depends, in part, on front-end fee accruals from loan signings. (Section C.1.)

- Liquidity: Probable holdings of cash and securities at end FY83 will be at upper end of revised policy target. (Section C.2.)

2. IDA

- Disbursements: On target (Section B.2).

- Commitment Authority: On target (Section B.3).

B. STATUS OF FINANCIAL PROGRAMS

1. BORROWINGS

(a) April Borrowings:

Seven borrowings were completed in April totalling US$413.5 million equivalent with an average life of 6.1 years and average costs of 6.97%. These borrowings included SwF, Guilders, Yen and DM. In addition, six swap transactions were completed. The status of FY83 borrowings at the end of April is provided in the table shown under (b).

The capital markets were generally receptive during April as the first real signs of a sustained economic recovery began to emerge. Despite initial investor fears that high growth in the US money supply and the US Treasury borrowings would force rates upward, uncertainties began to fade by mid-month as investors moved increasingly to lock in current yields. By mid-May, however, the markets showed considerable weakness as rates rose in response to increasing money supply figures substantially above target. The Swiss and Japanese markets have remained stable while the German market was sluggish due to the continued enormous investor interest in equities.

(b) Cumulative FY83 Borrowings:

The cumulative borrowings by currency, compared to the revised FY83 borrowing program, are as follows:

CURRENT FY83 PROGRAM				CUMULATIVE TO APRIL 30, 1983 1/					
Amount	US$ Equiv.	%	Currency	Amount	US$ Equiv.	%	Average Life (years)	Average Cost (%)	Achieved in first ten months (%)
(in millions)				(in millions)					
1,955	1,955	18	US Dollars	1,752.8	1,752.8	19	8.0	11.93	90
3,769	1,537	14	Deutsche Mark	3,072.4	1,244.4	14	7.2	8.24	81
5,285	2,504	23	Swiss Francs	4,834.8	2,278.0	25	5.6	6.58	91
320,000	1,303	12	Japanese Yen	260,000.0	1,048.3	11	9.7	8.55	80
2,284	847	8	Dutch Guilders	2,193.7	811.1	9	6.1	8.63	96
	656	6	Other		574.6	6	5.6	10.87	88
	8,802	81	SUB-TOTAL		7,709.2	84	7.0	8.86	88
	2,000	19	Short-term Borrowing (US$)		1,498.5	16	53.2days	8.77	75
	10,802	100	TOTAL		9,207.7	100	5.9	8.85	85
			Less: to be settled		13.7				
			Add: FY82 settlements		566.3				
			TOTAL SETTLED		9,760.3				

(c) May Borrowings:

On May 5, the Board approved a total Borrowing Program of $10.8 billion, of which $8.8 billion would be for medium- and long-term borrowings. Borrowings completed to April 30 amounted to $7.7 billion, consequently $1.1 billion would need to be borrowed during the remainder of this FY.

Planned borrowings for May would amount to approximately $900 million equivalent and would consist of Yen, DM, SwF and US dollars. This would leave for June a balance of about $200 million to complete the above medium- and long-term program.

1/ Throughout, swap transactions are reflected in the currencies into which they were swapped.

(d) Outlook

For the remainder of FY83, medium- and long-term rates are expected to move moderately upward from end of April rates, reflecting recent increases in short-term rates. For the entire FY, the cost of borrowings is likely to be 8.9%, very close to the cost at the end of April. For FY84, borrowing costs remain highly uncertain in view of current market deterioration.

2. DISBURSEMENTS AND LOANS SERVICE

(a) IBRD:

Disbursements to and loan service payments from members were as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of April	Cumulative FY83 to April	Cumulative FY83 to April	Full year FY83	Month of April	Cumulative FY82 to April	Full year FY82
Disbursements 1/	480	5,262	6,049	7,300	493	5,108	6,324
Service Payments:	407	3,838	4,073	4,966	369	3,245	3,994
Principal	179	1,656	1,856	2,207	174	1,344	1,683
Charges 1/	228	2,182	2,217	2,759	195	1,901	2,311
NET TRANSFER	73	1,424	1,976	2,334	124	1,863	2,330

Cumulative disbursements to countries for the first ten months of FY83 were $5,262 million, 72% of the original budget forecast. As previously reported, the current rate of disbursement (under $500 million per month for the past four months versus an average of just under $600 million for the first six months of FY83) has caused us to revise the expected outcome for FY83 downward to $6,700 million (as shown in the FY84 Budget Memorandum). Regions report expected disbursements under a few large SALs and some possible acceleration of project disbursements under the Special Action Program. This will be necessary to achieve the revised estimate of $6,700 million.

Cumulative disbursements to IFC were $29 million at the end of April against the current estimate for the FY of $80 million. Front-end fee capitalizations in FY83 through April 30, 1983 were $80 million, two-thirds of the current estimate for the FY of $120 million.

1/ Excludes front-end fees.

IBRD net transfer is negative to four countries currently rescheduling a portion of their external debt: Argentina ($-24 million), Bolivia ($-9 million), Mexico ($-9 million) and Zambia ($-23 million). The net transfer to Brazil, which had turned negative in February and March ($-36 million for the two months), turned positive again in April ($22 million for the month), increasing the cumulative net transfer for the ten months of FY83 to a positive $154 million.

Overdue Service Payments

The following table shows end-April overdue payments; although the amounts are the same, the age composition at the end of April shows a slight improvement over the previous month. Colombia and Zambia had overdue service payments of $.9 million and $.1 million respectively at April 30, compared to $12.1 million and $11.9 million respectively at March 31. Algeria's payment of its $.9 million obligation, which had been overdue more than 120 days, was received by the Bank on May 5, 1983.

(In US$ millions)

Country	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Brazil	6.9	6.9	-	-	-	-
Tanzania	3.5	1.6	1.9	-	-	-
Dominican Republic	3.2	.3	2.4	.5	-	-
Kenya	3.2	2.9	-	.3	-	-
Nicaragua	3.2	3.2	-	-	-	-
Egypt	2.5	2.5	-	-	-	-
El Salvador	2.5	2.5	-	-	-	-
Ghana	2.4	2.4	-	-	-	-
Bolivia	1.7	1.7	-	-	-	-
East African Community	1.4 1/	1.4	*	*	-	-
Liberia	1.4	.8	.6	-	-	-
Mexico	1.3	1.3	-	-	-	-
Ivory Coast	1.2	1.2	-	-	-	-
Algeria	1.1	.2	-	-	-	.9
Jamaica	1.1	1.1	-	-	-	-
Madagascar	1.1	1.1	-	-	-	-
Turkey	1.0	1.0	-	-	-	-
Others 2/	6.0	3.3	1.9	.8	-	-
Total (as of April 30, 1983)	44.7 3/	35.4	6.8	1.6	-	.9
Memo: as of March 31, 1983	45.7	26.7	13.1	4.9	.1	.9

1/ Comprises Tanzania $.7 m, Kenya $.7 m.
2/ Each less than $1.0 m (16 countries).
3/ Of this, $27.1 m has been settled through May 16, 1983.

* Insignificant (less than $.5 million).

(b) IDA:

Disbursements and credit service data for IDA are as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of April	Cumulative FY83 to April	Cumulative FY83 to April	Full year FY83	Month of April	Cumulative FY82 to April	Full year FY82
Disbursements	171	2,186	2,033	2,500	234	1,646	2,067
Service Payments:	15	152	155	186	12	122	156
Principal	4	48	48	58	3	36	51
Charges	11	104	107	128	9	86	105
NET TRANSFER	156	2,034	1,878	2,314	222	1,524	1,911

Disbursements

Cumulative disbursements in FY83 up to the end of April 1983 were $2,186 million, 87% of the FY83 budget forecast, compared to an expected 81% according to past experience. IDA disbursements in April were $171 million, below the monthly average of $224 million for disbursements in the preceding nine months of the fiscal year. Despite this decline in April, which appears sharp when compared to the exceptional March disbursements of $445 million, total IDA disbursements for FY83 are still expected to be around $2,600 million, $100 million over the FY83 budget forecast of $2,500 million.

Overdue Service Payments

Total overdues at the end of April were $4.5 million from 24 countries, compared to $4.7 million from 21 countries at March 31. Chad and Tanzania continue to make up more than 50% of the overdue amounts. Chad has not made a payment to the Association since December 31, 1982, while Tanzania has continued to make payments and settled $.5 million during April. Disbursements to Chad remain partially suspended. The following table provides the age analysis at April 30.

(In US$ millions)

Country	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Chad	1.2	-	*	-	*	1.2
Tanzania	1.2	.4	.8	-	-	-
Madagascar	.5	.5	-	-	-	-
Sudan	.4	-	.4	-	-	-
Uganda	.3	.1	.2	-	-	-
Upper Volta	.2	.2	-	-	-	-
Guyana	.1	.1	*	-	-	-
Nicaragua	.1	.1	-	-	-	-
Sierra Leone	.1	*	.1	*	-	-
Guinea	.1	*	.1	-	-	-
Others 1/	.3	.3	-	*	*	-
Total (as of April 30, 1983)	4.5 2/	1.7	1.6	*	*	1.2
Memo as of March 31, 1983	4.7	2.8	.7	*	.2	1.0

1/ Each less than $.1 m (14 countries).

2/ Of this, $1.2 m has been settled through May 16, 1983.

* Insignificant (less than $.05 million).

3. CAPITAL SUBSCRIPTIONS/IDA COMMITMENT AUTHORITY

(a) Rate of Subscription

The following table shows the pace of subscription of authorized capital through April 30, broken down by Part I and Part II shareholders. For Part I shareholders, there is no change from the previous month. The next report will show Part II shareholders' progress by Bank Regional Office, with the clear intent to provoke follow-up action by Regional staff where warranted.

	authorized	subscribed 1/	subsc. as % of authorized
Part I Members	428,186	330,141	77%
Part II Members	286,417	152,753	53%
Unallocated	1,897	-	-
	716,500	482,894	67%

(b) The table below shows the IDA Commitment Authority position.

	(SDR millions)
Total Available for Commitments at July 1, 1982	147
Add: Contributions Received	
- IDA6	2,488
- Special Fund	39
- Other Resources (including IBRD transfers, credit repayments, etc.)	209
	2,883
Less: FY83 Credits Approved through April 30	1,868
COMMITMENT AUTHORITY AT APRIL 30, 1983	1,015

Additional donor contributions from Brazil, Canada, France and the UAE are expected to provide an additional SDR 210 million for credit commitment in FY83 (bringing the commitment authority for FY83 to about SDR 3,090 million), provided the required notifications are submitted to the Association at the end of the fiscal year. We do not expect to receive releases from Portugal and Venezuela in time for inclusion into FY83 commitment authority.

1/ Includes agreed arrangements for the phasing of subscriptions.

4. INVESTMENTS

Relevant data on investments are as follows:

(a) By Currency:

(US$ millions)

	POSITION AT:			
	Mar. 31, 1983		April 30, 1983	
	Book Value	Yield (%)	Book Value	Yield (%)
Investments in:				
US Dollars	9,209.6	9.55	9,439.7	9.23
Non-US Dollars	3,186.4	11.33	3,733.4	10.51
TOTAL	12,396.0	10.01	13,173.1	9.59

(b) By Maturity:

(in US$ millions)

	POSITION AT APRIL 30		
	Book Value	Yield	Unrealized Gains/Losses
Up to 6 months	8,391	9.64	6
6 months to 1 year	1,559	9.32	5
Sub-total up to 1 year	9,950	9.59	11
Over 1 year	3,223	9.59	17
TOTAL INVESTMENTS	13,173	9.59	28
Add: Other Cash Balances	578		
TOTAL LIQUID ASSETS	13,751		

(c) Realized Returns:

	%
Original Budget	10.75
Month of April	10.28
FY83 Cumulative	12.72

The extension of the US$ portfolio at lower prices at the end of March bore fruit in April. Interest rates in other currencies in which we held long positions also fell during April. As a result, the Bank realized $7.7 million capital gains during the month and had a total of over $28 million unrealized gains at the end of the month.

Income from securities lending in April amounted to US$ 1.1 million; the FY83 cumulative figure was US$ 19.9 million.

(d) Outlook

The following table presents the best estimate, based on current market conditions and the positioning of the portfolio, of the probable performance of the portfolio for the rest of FY83.

INVESTMENT INCOME MARGIN STATEMENT: FY83

	Actual 10 Months			Estimated May-June 1983			Revised FY		
	Avg. Balance	Income	Return	Avg. Balance	Income	Return	Avg. Balance	Income	Return
US-$									
Investments	8,933	949	12.75%	9,775	160	9.8%	9,075	1,109	12.2%
Other	2,389	251	12.60%	3,925	70	10.7%	2,625	321	12.2%
	11,322	1,200	12.72%	13,700	230	10.1%	11,700	1,430	12.2%

The currently projected rate of return on liquidity of 12.2% is slightly lower than the comparable figure shown in the FY84 Budget memorandum. The figure in the table above assumes no net capital gains or losses after mid-May. The prospects for likely market moves for the remainder of FY83 imply a realized range of plus or minus $20 million.

C. IBRD NET INCOME AND LIQUIDITY

1. NET INCOME

The current projection for FY83 net income remains at $800 million but its attainment depends largely upon loans currently in the pipeline being quickly signed following Board approval.

2. LIQUIDITY POSITION

The present estimate for FY83 year-end liquid assets is about $14 billion which would amount to about 46% of our current estimate of the sum of outstanding debt maturing during the next three years and the next three years' other net cash requirements--namely disbursements over that time frame. This latter sum is itself subject to considerable uncertainty; so that the year-end liquid assets could still be below 45% depending on the volume of projected disbursement.

MCR: Report

US$

FINANCIAL REPORT FOR APRIL 1983

Summarized IBRD Financial Results

(In US$ millions)

	FY82 COMPARATIVES FY82 ACTUAL	MONTH OF APRIL	CUM. TO APR.1982	FY83 MONTH OF APRIL BUDGET	ACTUAL	VARIANCE	CUMULATIVE TO APRIL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	REVISED BUDGET
1. KEY ELEMENTS OF INCOME											
Interest and other income on loans	2,391	206	1,941	258	245	-13	2,388	2,301	-87	2,965	2,803
Investment income	955	86	803	107	112	+5	998	1,200	+202	1,200	1,474
Other income	27	-	19	2	1	-1	21	14	-7	25	18
Income	3,373	292	2,763	367	358	-9	3,407	3,515	+108	4,190	4,295
Financial expenses	2,462	217	2,009	287	280	+7	2,605	2,562	+43	3,246	3,147
Administrative expenses	313	19	235	24	25	-1	286	287	-1	362	348
Expenses	2,775	236	2,244	311	305	+6	2,891	2,849	+42	3,608	3,495
NET INCOME	598	56	519	56	53	-3	516	666	+150	582	800
2. KEY ELEMENTS OF CASH FLOW											
Net Income	598	56	519	56	53	-3	516	666	+150	582	800
New Borrowings	8,029	671	6,392	473	1,518	+1,045	8,467	9,760	+1,293	9,902	11,145
Less: Debt retirement	2,829	154	2,469	278	283	-5	2,654	2,688	-34	2,967	2,939
NET NEW BORROWINGS	5,200	517	3,923	195	1,235	+1,040	5,813	7,072	+1,259	6,935	8,206
New loanable capital	278	1	228	72	2	-70	164	246	+82	405	350
TOTAL SOURCES	6,076	574	4,670	323	1,290	+967	6,493	7,984	+1,491	7,922	9,356
Disbursements	6,374	513	5,153	643	494	-149	6,345	5,371	-974	7,655	6,900
Less: Repayments	1,709	183	1,370	202	189	+13	1,880	1,683	+197	2,236	2,073
NET DISBURSED	4,665	330	3,783	441	305	-136	4,465	3,688	-777	5,419	4,827
Payments to IDA	174	5	155	-	11	+11	26	21	-5	35	25
Increase in cash and investments	1,188	206	650	-158	1,026	+1,184	1,902	4,467	+2,565	2,388	4,664
Net increase in other assets	49	33	82	40	-52	-92	100	-192	-292	80	-160
TOTAL USES	6,076	574	4,670	323	1,290	+967	6,493	7,984	+1,491	7,922	9,356
3. KEY BALANCE SHEET ITEMS											
Liquid assets	9,394		8,960				11,291	13,751	+2,460	11,783	13,915
Portfolio assets	29,168		29,748				34,310	33,235	-1,075	35,587	34,338
EARNING ASSETS	38,562		38,708				45,601	46,986	+1,385	47,370	48,253
Borrowings	31,840		31,854				38,215	39,302	+1,087	39,602	40,408
Loanable Capital	2,680		2,726				2,887	2,874	-13	3,158	2,973
Reserves and Due to IDA	4,469		4,541				5,025	4,997	-28	5,099	5,105
Other	-427		-413				-526	-187	+339	-489	-233
TOTAL LOANABLE RESOURCES	38,562		38,708				45,601	46,986	+1,385	47,370	48,253
4. NOTES											
Breakdown of Loan income:											
- Interest	2,161	186	1,778	226	220	-6	2,071	2,042	-29	2,576	2,469
- Commitment Charges	191	16	158	18	18	-	180	176	-4	234	214
- Front-end Fee	39	4	5	14	7	-7	137	83	-54	155	100
Contributions to Special Programs (included in admin. expenses)	23	-	13	4	-	-4	17	10	-7	24	24
Net disbursements to IFC (included in net disbursements above)											
- Disbursements	48	19	44	17	2	-15	167	29	-138	200	80
- Repayments	26	9	25	2	10	+8	24	27	+3	29	29
- Charges	41	10	36	3	10	+7	34	36	+2	41	41
Front-end fee capitalized	2	1	1	13	12	-1	129	80	-49	155	120
Undisbursed Loans	31,984		29,604					32,543		35,906	36,105
5. KEY RATIOS											
Statutory lending limit								55,431			
- ratio of outstandings to capital								60%			
Interest coverage ratio	1.24	1.26	1.26	1.20	1.19		1.20	1.26		1.18	1.25

Controller's
5/18/83

MCR:IBRD.Compar. (w/o.Rev.)

FINANCIAL REPORT FOR APRIL 1983

SDR

Summarized IBRD Financial Results

(In millions of SDRs)

FY82 COMPARATIVES: FY82 ACTUAL	FY82 COMPARATIVES: MONTH OF APRIL	FY82 COMPARATIVES: CUM. TO APR.1982		FY83 MONTH OF APRIL: BUDGET	FY83 MONTH OF APRIL: ACTUAL	FY83 MONTH OF APRIL: VARIANCE	FY83 CUMULATIVE TO APRIL: BUDGET	FY83 CUMULATIVE TO APRIL: ACTUAL	FY83 CUMULATIVE TO APRIL: VARIANCE	FY83 ORIGINAL BUDGET	FY83 REVISED BUDGET
			1. KEY ELEMENTS OF INCOME								
2,103	185	1,701	Interest and other income on loans	234	226	-8	2,170	2,121	-49	2,668	2,522
839	77	703	Investment income	96	103	+7	907	1,106	+199	1,080	1,326
24	0	17	Other income	2	1	-1	19	13	-6	22	16
2,966	262	2,421	Income	332	330	-2	3,096	3,240	+144	3,770	3,864
2,166	194	1,761	Financial expenses	260	259	+1	2,368	2,362	+6	2,921	2,831
275	18	206	Administrative expenses	22	23	-1	260	265	-5	325	313
2,441	212	1,967	Expenses	282	282	-	2,628	2,627	+1	3,246	3,144
525	50	454	NET INCOME	50	48	-2	468	613	+145	524	720
			2. KEY ELEMENTS OF CASH FLOW								
525	50	454	Net Income	50	48	-2	468	613	+145	524	720
7,054	602	5,595	New Borrowings	427	1,403	+976	7,703	9,188	+1,485	8,910	10,028
2,494	138	2,174	Less: Debt retirement	251	261	-10	2,415	2,649	-234	2,670	2,644
4,560	464	3,421	NET NEW BORROWINGS	176	1,142	+966	5,288	6,539	+1,251	6,240	7,384
245	1	200	New loanable capital	65	2	-63	148	277	+129	364	315
5,330	515	4,075	TOTAL SOURCES	291	1,192	+901	5,904	7,429	+1,525	7,128	8,419
5,610	460	4,518	Disbursements	580	457	-123	5,766	4,953	-813	6,888	6,208
1,505	164	1,201	Less: Repayments	182	175	+7	1,709	1,550	+159	2,012	1,865
4,105	296	3,317	NET DISBURSED	398	282	-116	4,057	3,403	-654	4,876	4,243
151	4	134	Payments to IDA	-	10	+10	23	20	-3	31	23
1,027	185	547	Increase in cash and investments	-143	948	+1,091	1,733	4,139	+2,406	2,149	4,197
47	30	77	Net increase in other assets	36	-48	-84	91	-133	-224	72	-144
5,330	515	4,075	TOTAL USES	291	1,192	+901	5,904	7,429	+1,525	7,128	8,419
			3. KEY BALANCE SHEET ITEMS								
8,601		7,932	Liquid assets				10,176	12,714	+2,538	10,602	12,521
26,704		26,333	Portfolio assets				30,920	30,726	-194	32,021	30,897
35,305		34,265	EARNING ASSETS				41,096	43,440	+2,344	42,623	43,418
29,151		28,198	Borrowings				34,439	36,336	+1,897	35,633	36,359
2,454		2,413	Loanable Capital				2,602	2,657	-55	2,842	2,675
4,091		4,019	Reserves and other				4,529	4,620	+91	4,588	4,594
-391		-365	Other				-474	-173	+301	-440	-210
35,305		34,265	TOTAL LOANABLE RESOURCES				41,096	43,440	+2,344	42,623	43,418
			4. NOTES								
			Breakdown of Loan income:								
1,905	167	1,563	- Interest	204	203	-1	1,882	1,882	-	2,318	2,240
168	15	138		17	16	-1	164	162	-2	211	192
30	3	4	- Front-end Fee	13	7	-6	124	77	-47	139	90
20	-	12	Contributions to Special Programs (included in admin. expenses)	4	-	-4	16	9	-7	22	22
			Net disbursements to IFC (included in net disbursements above)								
43	17	39	- Disbursements	15	2	-13	152	26	-126	180	72
23	8	22	- Repayments	2	9	+7	22	25	+3	26	26
36	9	31	- Charges	3	9	+6	31	33	+2	37	37
2	1	1	Front-end fee capitalized	12	11	-1	117	74	-43	139	108
29,283		26,206	Undisbursed Loans					30,087		32,308	32,487
			5. KEY RATIOS								
			Statutory lending limit					51,248			
			- ratio of outstandings to capital					60%			
1.24	1.26	1.26	Interest coverage ratio	1.19	1.19		1.20	1.26		1.18	1.25

Controller's
05/18/83

MCR:IBRD.Compar. (SDRs)

CONFIDENTIAL

Joint Meeting of Managing Committee and
Senior Management Council

May 13, 1983
Record: May 25, 1983

FROM: Roy Southworth VRS

SUBJECT: Minutes of May 2, 1983 Meeting

Members Present: A. W. Clausen, M. Qureshi, E. Stern, N. Ardito-Barletta, M. Benjenk, W. Baum, R. Chaufournier, M. Hattori, D. Hopper, A. Krueger, D. Knox, M. Paijmans, E. Rotberg, T. Thahane, M. Weiner, H.Wuttke.
Members Absent: G. Gabriel, S. Husain, A. Karaosmanoglu, J. Parmar, W. Wapenhans.
Also Present: H. Scott.

1. Monthly Financial Report

Documentation — Financial Report for March 1983.

Presentation — Mr. Qureshi opened the presentation by asking for feedback on the format and presentation of the monthly financial report. He said that it had evolved quite a bit from the original format and that its objective was to provide information to senior management. He then reviewed the highlights for the month of March. He said the situation on borrowing was particularly good. Borrowings were slightly ahead of target with costs at about 8.9% and an average life of about 7 years. He also noted that the medium and long-term borrowing program would be increased by about $1.0 billion if the proposals in the liquidity paper were approved by the Board.

On IBRD disbursements Mr. Qureshi said there had been an improvement in March but that the slowdown had persisted for the Latin American countries, most notably Brazil and Mexico. The overall outcome for FY83 likely would be a shortfall in the range of $500 to $900 million. He also observed that net transfers were positive in March at $140 million compared with a negative $45 million in February. He added that cumulative net transfer was negative in three countries (Argentina, Mexico and Zambia) who were currently rescheduling their debt. On service payments, Mr. Qureshi said that the situation was not as bad as implied by the paper. Although more countries were now having problems with arrears the overall situation was still manageable. However he noted that there was clearly a need for a careful monitoring of the situation. On net income Mr. Qureshi said that the estimated income for FY83 had dropped $50 million to $750 million. This drop was largely due to slower disbursements and delays in collecting front-end fees.

Discussion

The discussion focused largely on net income. There was some question on the projected $50 million shortfall. It was pointed out that the slowdown in disbursements would increase holdings of cash which would earn a higher return than disbursed funds thus possibly offsetting the effect of decreased loan income. There was some question that the decreased revenue from the slower collection of front-end fees would alone generate a $50 million reduction in income. It was also noted that the $750 million figure would not be helpful in Board discussions as the Board had come to expect profits of $800 million.

2. IDA 7 Strategy, Tactics and Action Plan

Documentation

Memo (Qureshi) April 14, 1983 FIS/MC83-28: IDA 7: Strategy, Tactics and Action Plan.

Presentation

Mr. de Lattre prefaced the presentation by summarizing the discussions with representatives of G-6 and other donor countries at Development Committee meetings. He said the core group of Netherlands, the Nordics, Italy, Canada and the Arabs reconfirmed their support for an IDA replenishment in the range of $16 billion. He pointed out that Japan would probably also be prepared to support such a figure provided that the question of their shares in IBRD was resolved to their satisfaction. France also made a carefully worded statement in support of a replenishment that maintained the real value of IDA resources. The weak point however was Germany. Mr. Warnke's statement in the Development Committee was disappointing in that he said that Germany would not be able to participate in IDA 7 at the same level or share as IDA 6. He then said that it would be unrealistic to consider any amount above $12 billion. On the question of next steps Mr. de Lattre said that the Deputies had been asked to be prepared to discuss the size of IDA 7 at the Tokyo meeting. He was not sure, however, that they would be willing to outline precise figures if there were no movement by the US on the supplemental FY83 appropriation and FY84 appropriation and if there were no progresson the question of Japanese shares in IBRD.

Turning to the paper, Mr. Qureshi said it provided background information to senior managers to guide them over the next few months of the IDA negotiations. He said the strategy was essentially based on the assumption that negotiations of IDA 7 would have to be completed by the end of calendar year 1983 so that the necessary legislation would be in place to begin commitments in July 1984. Mr. Qureshi then outlined a two-track strategy for the months leading up to the Annual Meetings. One track involved first getting the core group out in front to support the $16 billion figure and then getting some of the larger European countries on board. Discussions on the size of IDA 7 would have to be discussed in Tokyo so the core group could begin to voice public support for the $16 billion figure. The second track involved work on the US Congress and Administration. Also important was the timing of the discussions on selective capital increase so that the Japanese could be enlisted in the effort to pressure the US before the Annual Meetings.

Mr. Qureshi said the Regional Vice Presidents could assist with the developing countries whose support was crucial for the overall strategy. He asked that the Regional Vice Presidents alert Mr. Mistry or himself about any visiting delegations from their countries. An effort would then be made to have the delegations help in the Bank's efforts with Congress and the Administration.

Discussion

The discussion focused first on the importance of maintaining the US share of IDA in the range of 25%. It was noted that by the best objective criteria the US share should be about 30% and that the 27% share in IDA 6 had been reasonable. The high share signaled to others that the US remained committed to IDA's goals and objectives. A drastic cut would be a sign that the US was no longer committed to IDA making it difficult for the other contributors to maintain their support. It was also pointed out that while the US would probably not consider going higher than 25% in IDA 7 the other donors would not allow them to go much lower.

The discussion then turned to the question of whether the strategy of pushing for a $16 billion IDA as outlined by Mr. Qureshi was realistic. There was some concern that the target July 1, 1984 might not coincide with the economic resurgence that was now showing signs of getting under way. With a longer time frame, perhaps through another bridging year, some countries might be willing to come up with additional resources. It was also noted that with the potential IDA 6 overhang the US could be required to commit as much as $1.6 million in the first year of IDA 7. There was concern that it would be unrealistic to expect the US to agree to that amount. In response it was pointed out that the $16 billion figure represents only a slight increase in real terms over IDA 6. It was also noted that the $16 billion represented a negotiating stance and that it had to be recognized that the final figure might not be that high. However, donors representing as much as 35% of the IDA share supported the figure and it was imperative that every effort be made to garner support for it over the next few months. A Committee member observed that another bridging year gave rise to the spectre of a potentially divisive split among the donors. Another member added that there was a clear rationale for the $16 billion figure. If it were abandoned too early in the negotiations the options for using alternatives outside the burden-sharing framework would be lost. There was also some discussion on specific country positions. A question was raised about Japan's objectives on the issue of IBRD shares. It was noted that Japan would like ideally to see its share increased so it would become the second largest shareholder. But they would most likely agree to a compromise. Their position was somewhat clouded by the failure to achieve their objectives in the IMF quota allocation. The Japanese know that a solution to the question of shares in IBRD depended somewhat on the outcome in the Fund but at the same time they would now redouble their efforts in the Bank where they exercised more leverage. It was pointed out that the crucial question remained as to what Japan would be willing to give in return for assistance in achieving their objective. In this context it was observed the Japanese EDs office was not doing a very effective job in mobilizing support for their stance on IBRD shares. If they were more forthcoming on the level of IDA they would be willing to support, their colleagues particularly from Part II countries would likely be more helpful on the question of IBRD shares. Another speaker said that it was possible that Germany's somewhat negative stance on IDA may have resulted from their use of a worst case scenario with respect to projected figures for future IFC and IBRD capital increases. He said that it would be beneficial to discuss with Germans our future plans with regard to the selective capital increase, the GCI and IFC's capital requirements in an effort to revise their attitude towards IDA. A brief discussion on the possible shape of future requests for the SCI and GCI followed.

Committee Action

The discussion closed with a request by a Regional Vice President for better information on how to advise their constituencies on how to approach the US authorities in support of our IDA strategy. The Committee, in concurrence with the Senior Management Council, agreed that any time a country delegation was coming to Washington the RVPs would contact Mr. Mistry so that an appropriate strategy could be developed.

3. Principles of Staff Employment

Documentation

Paper (COM) April 20, 1983 (PAD/MC83-20) PAD/SMC83-04: Principles of Staff Employment with attachments.

Presentation

Mr. Paijmans said that in light of consultation with the Board, Committee on Staff Compensation and discussions with Senior Management Council a number of revisions have been made to the draft Principles. He said it was now time to bring the consultations to a close as the draft has been subjected to an extensive review process. He noted that it would be impossible to please everyone and that continuing the consultations would be counter-productive. He then outlined the next steps for distribution to the staff, final approval by the Managing Committee and Board consideration. He observed that the paper would provide the staff and the Administrative Tribunal a standard against which to measure Senior Management behavior. While Management in the past had generally lived up to the principles formalized in the draft, some instances of capricious and arbitrary behavior had occurred. He noted that once the Principles were approved such behaviors would no longer be possible.

Discussion

In a brief discussion the members voiced strong support for the draft. It was noted that such an effort was long overdue and that the document had benefited considerably from the intensive process of consultation.

Committee Action

The Committee and Council members approved the draft Principles for distribution to the staff.

4. Other Business

Cananea

Mr. Wuttke reported that in view of the ongoing interest of various parties in the US in the Cananea Project, he proposed to clarify matters by including a statement in IFC's Monthly Report. The statement would say that it was the opinion of IFC's Management that due to substantial changes in the past nine months in the international capital markets, Mexican economy, the copper industry and the project itself, the project could not be implemented as it was originally conceived. If in the future the Manangement of the Corporation proposed to proceed with an investment in Cananea, it would reappraise the project and bring the matter to the Board for consideration. Mr. Wuttke said that Mr. Burnham would be apprised of this so he could flag the issues with the parties concerned.

Summary of Board Seminar on "Review of IBRD Lending Plans and Capital Requirements"

A Committee member stated that the summary of the Board seminar on the paper "Review of IBRD Lending Plans and Capital Requirements" was confusing on the question of net cancellations. The summary indicated that in reply to an Executive Director's question, staff had said neither the FY82-86 figure of $60 billion nor the FY83-87 figure of $61.8 billion were net of cancellations. The Committee member said that his understanding was that these two figures were in fact to be considered net of cancellations. He concluded that this issue needed to be clarified.

R E C O R D
Senior Management Council

CONFIDENTIAL

Senior Management Council

April 22, 1983

FROM: Roy Southworth VRS

SUBJECT: Minutes of March 25, 1983 Meeting

Members Present: A. W. Clausen, M. Qureshi, E. Stern, N. Ardito-Barletta, R. Chaufournier, G. Gabriel, M. Hattori, S. Husain, A. Karaosmanoglu, A. Krueger, D. Knox, J .Parmar, M. Paijmans, E. Rotberg, T. Thahane, W. Wapenhans, M. Weiner, H. Wuttke.
Members Absent: M. Benjenk, W. Baum, D. Hopper.
Also Present: H. Scott.

1. Monthly Financial Report

Documentation Financial Report for February 1983.

Presentation Mr. Qureshi said that the report for the first time included a summary that identified major highlights for the month. It indicated a sharp drop in IBRD disbursements over January and February and a potentially worrisome deterioration of country performance on loan service charges. On disbursements, Mr. Qureshi said that the sharp drop was expected and resulted from low drawings on structural adjustment loans and a slow down in the investment programs of many borrowers. He pointed out that if this trend continued, there would be a shortfall in the total disbursements for the fiscal year. This could possibly offset the effects of the Special Action Program. He added that for the first time net transfers for IBRD were lower than for IDA. On the question of IBRD overdues, he said that the situation was not as serious as indicated in the report as many countries recently had paid up. Only Zambia was on notice of suspension. He added that a study of the overdues situation was under way and would be included as a special topic in the March 1983 report.

Discussion The discussion focused primarily on the question of IBRD disbursements. A Council member said that seasonal disbursement patterns should be included in the analysis. He said little could be discerned from two months of data and that the drop could be part of a normal historical pattern. In response it was noted that a historical pattern existed but was reverse of the current situation. Disbursements were normally higher in the second half of the fiscal year as the budget years in borrowing countries drew to a close. The counter-cyclical pattern evident this year was clearly the result of the current economic situation.

2. Attitude Survey

Documentation 2.1 Paper (PMD) March 18, 1983 PAD/MC83-02: Institutional Issues Arising from the Attitude Survey.

Presentation Mr. Paijmans said the Attitude Survey had yielded many institutional messages and that Senior Management must show its concern and work to develop policies and procedures to deal with the underlying issues. He then identified the two major issues arising from the survey as career development and management processes. With respect to career development Mr. Paijmans observed that it meant different things to different people. He said that many staff had unrealistic expectations with respect to career development and that the Bank must first define institutional needs and then work to eliminate staff expectations that did not fit within these needs. On the question of management processes he said the institutional climate was marked by a lack of trust in Management. He said problem areas included a need for greater support for managers in their role as managers of people and resources, the systems for consultation and downward communication, and the overall area of delegation and delineation of responsibilities. He said that Senior Management needed to tackle these issues and help to develop solutions.

Discussion The discussion focused first on severity of problems identified. A Council member said there was little basis to determine how serious the problems were, particularly in comparison with other institutions. He wondered whether frustrations voiced in the survey were not natural and unavoidable. It was agreed that some frustration would be inevitable particularly given the broad based nature of the institution. However the survey served as a benchmark and as such it identified real issues and provided some sense of priorities. Subsequent surveys would give Management a better feel of how to evaluate the results and would allow them to track progress on the initiatives taken to address the problems.

The discussion then turned to the overall question of whether there were too many initiatives being taken at this time and whether efforts to address the problems raised in the Attitude Survey would overload the system. There was also concern that some of the initiatives were too cumbersome and overly bureaucratic. The discussion focused mostly on the performance planning and review system. Some Council members felt that it could quickly degenerate into a non-productive exercise of filling out more forms without yielding the desired benefits. In response it was noted that there was indeed a danger of the process becoming too bureaucratic. However, there was a need to maintain consistency in the application of the system and some controls were needed to take account of managerial differences and to ensure that it was implemented in an equitable manner. It was agreed that the process was designed to facilitate performance evaluation and that it should be viewed as a tool to help managers do their job more effectively. With full Management support the process would not deteriorate into another bureaucratic exercise.

Returning again to the issues raised in the Survey several Council members questioned the interpretation of the findings. There was some concern that Management would mistake the natural process of venting frustrations as being indicative of real trouble areas. It was also observed that there are two types of problems, real and perceived and that the perceived problems could conceivably be masking other real problems. The Survey uncovered a lot of job satisfaction among the staff and extreme loyalty to the Bank. But there was also some negative feedback about how the institution was managed. The Council felt these negative opinions were often not based on personal experiences but on heresay and perceptions of what had happened to others. Nevertheless, such perceptions played a major role in influencing staff attitudes and the Council agreed that an effort was required to separate the real issues from perceived problems. It was also agreed that the manner in which the current management initiatives were being carried out would influence staff attitudes on other issues.

After further discussion, Mr. Clausen said that the paper provided a good description of the institutional issues facing Senior Management. He said that Senior Managers had to think hard about these issues, establish priorities and consider what the appropriate institutional responses should be. He asked that staff from PMD initiate a consultation process with Senior Management Council members to collect their views on what processes and recommendations would be required to address the issues. He asked that PMD report the results of this consultation process to an early SMC meeting.

3. Revised Reward Policy

Mr. Paijmans gave a brief oral presentation of the next steps to be taken in implementing the revised reward policy. He noted that papers had already been sent to the vice presidents outlining the process and that the staff was informed on February 4. He said that the Staff Association would soon be coming out with their own evaluation of the new policy and said that a Management response may be required. He said that PMD would provide assistance in addressing questions arising out of the Staff Association report to Council members who needed it. He went on to say that on April 8 various directors would receive guidelines and worksheets to start the process of determining individual salary adjustments. He suggested that the vice presidents work closely with their directors to ensure that the process is equitably applied across the board.

RECORD

SMC

April 21, 1983

NOTICE OF POSTPONEMENT

The following document distributed for consideration at April 25 Meeting is now postponed for consideration on May 2.

Paper (Bowyer/Clarke) April 20, 1983 PAD/MC83-20: Principles of Staff Employment with attachments.

Meena -

AWC wants to use his MC copy of this for SMC -

bi

6/29

W

Revised last ¶ on P 34

did not want to substitute

without your knowing

H.

Record Removal Notice

File Title	Barcode No.
Senior Management Council - Memos - Correspondence 08	1773318

Document Date	Document Type
N/A	Report with attached paper

Correspondents / Participants

Subject / Title
Principles of Staff Employment

Exception(s)
Corporate Administrative Matters

Additional Comments

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

Withdrawn by	Date
Shiri Alon	16-Feb-17

SMC

FIS/MC83-29
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MONTHLY FINANCIAL REPORT FOR MARCH 1983

A. HIGHLIGHTS (* flags a major problem)

1. IBRD

- Borrowings: on target (Section B.1).

* \- Disbursements: disbursements to countries likely to be some $900 million (12%) below the budget estimate; increase in FY83 borrowing program approved in connection with Special Action Program substantially exceeds amounts necessary, given existing liquidity targets for FY83. (Sections B.2 and C.2.)

- Loan Service Payments: deterioration in country performance suggests the need for more careful country-by-country monitoring. (Sections B.2 and D.)

- Capital: on target (Section B.3.)

- Investments: yield down slightly from previous projections but volume increase offsets income effect. (Section B.4.)

- Net Income: revised forecast lowers expected outcome for FY83 from $800 million to $750 million. (Section C.1.)

- Liquidity: current year-end ratio target likely to be substantially exceeded. (Section C.2.)

2. IDA

- Disbursements: good disbursement performance through third quarter leads to revision (upward) of expected FY outcome. (Section B.2.)

- Commitment Authority: on target. (Section B.3.)

3. Special Topic: Further analysis of loan service payments experience. (Section D.)

B. STATUS OF FINANCIAL PROGRAMS

1. BORROWINGS

(a) March Borrowings:

Eleven borrowings were completed in March totalling $1,009.2 million equivalent with an average life of 6.8 years and an average cost of 7.94%. These borrowings included Yen, DM, Guilders, SwF, Can$ and BF. In addition 8 swap transactions were completed. The status of FY83 borrowings at the end of March is provided in the table shown under (b).

(b) Cumulative FY83 Borrowings:

The cumulative borrowings by currency, compared to the revised FY83 borrowing program, are as follows:

CURRENT FY83 PROGRAM 1/				CUMULATIVE TO MARCH 31, 1983 3/					
							Average		Achieved in
Amount (in millions)	US$ Equiv. (in millions)	%	Currency	Amount (in millions)	US$ Equiv. (in millions)	%	Life: yrs.	Cost: %	first nine months (%)
1,738.5	1,738.5	18	US Dollars	1,884.3	1,884.3	22	7.8	11.83	108
3,503.8	1,423.5	14	Deutsche Mark	2,869.0	1,161.5	13	7.4	8.31	82
4,949.3	2,346.5	24	Swiss Francs	4,484.8	2,106.8	24	5.5	6.64	90
320,000.0	1,292.9	13	Japanese Yen	230,000.0	922.4	10	10.2	8.66	71
1,751.7	647.2	6	Dutch Guilders	1,933.7	715.9	8	6.1	8.71	111
	478.6	5	Other		504.3	6	5.7	11.02	105
	7,927.2 2/	80	SUB-TOTAL		7,295.2	83	7.1	9.01	92
	2,000.0	20	Short-term Borrowing (US$)		1,450.0	17	51 days	8.75	73
	9,927.2	100	TOTAL		8,745.2	100	5.9	8.96	88
			Less: to be settled		1,069.1				
					7,676.1				
			Add: FY82 settlements		566.3				
			TOTAL SETTLED		8,242.4				

1/ This borrowing program reflects the increase approved in the context of the Special Action Program.

2/ Medium- and long-term borrowing program could increase to $8,800 million if proposals affecting the level of the Bank's liquid holdings are approved by the Board.

3/ Throughout, swap transactions are reflected in the currencies into which they were swapped. During the first nine months, a total of US$1,116.2 million was swapped into SWF 2,364.3 million at an average cost of 6.8%; a total of US$187.4 million was swapped into DM 469 million at an average cost of 7.62%; a total of US$68.5 million was swapped into f. 183.7 million at an average cost of 7.64%; and a total of US$101.9 million was swapped into £67.7 million at an average cost of 10.61%.

(c) April Borrowings:

Planned borrowings for April would amount to approximately US$422 million equivalent and would consist of DM, Guilders, Yen and SwF. This would leave for May a balance of US$100/200 million to complete the current medium- and long-term Borrowing Program.

Despite some periodic fluctuation, interest rates in the US are expected to remain at current levels with a further flattening of the yield curve occuring through April and May. Technical factors will keep short term rates relatively high, while the considerably improved inflationary outlook should increase the demand for longer term securities. Rates in the other major markets should remain unchanged in response to conditions in the US.

2. DISBURSEMENTS AND LOANS SERVICE

(a) IBRD:

Disbursements to and loan service payments from members were as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of March	Cumulative FY83 to March	Cumulative FY83 to March	Full year FY83	Month of March	Cumulative FY82 to March	Full year FY82
Disbursements 1/	570	4,783	5,436	7,300	610	4,615	6,324
Service Payments:	430	3,430	3,632	4,966	342	2,879	3,994
Principal	193	1,476	1,656	2,207	142	1,171	1,683
Charges 1/	237	1,954	1,976	2,759	200	1,708	2,311
NET TRANSFER	140	1,353	1,804	2,334	268	1,736	2,330

Cumulative disbursements to countries for the first nine months of FY83 were $4,783 million, 66% of the budget forecast and 7 percentage points below the average of 73% of actual FY totals over the same period for the past six fiscal years. Disbursements in March were $570 million. This figure was higher than those for the disbursements in February ($362 million) and January ($507 million), but the monthly average disbursements of $480 million for those three months was still below the monthly average of $557 million for the first six months of FY83.

1/ Excludes front-end fees.

Country by country analysis of disbursements indicates that although there was an overall improvement in March compared to January and February, the slowdown has persisted for the Latin American group of countries, notably Brazil and Mexico.

IBRD net resource transfers to members were a positive $140 million in March compared to a negative $45 million in February. However, IBRD cumulative FY83 (through March 31) net transfer is negative to three countries currently rescheduling a portion of their external debt: Argentina ($-13 million), Mexico ($-12 million) and Zambia ($-15 million).1/ In addition, net transfer to Brazil turned negative in February and March ($-36 million for the two months), but remains positive for the nine months of the FY ($132 million).

FY83 Monthly Disbursements to Major Borrowers 2/3/

	1st Half		Average Jan. and Feb. 1983 (in US$ millions)		Average Jan. thru Mar. 1983	
Project Disbursements						
Brazil	56		41		40	
Indonesia	43		37		44	
Romania	41		25		30	
Korea	39		39		38	
Mexico	35		21		18	
Colombia	27		27		28	
Yugoslavia	27		22		23	
Philippines	20		17		19	
India	19		15		24	
Thailand	18		19		20	
Turkey	14		12		17	
Malaysia	12		7		10	
Morocco	11		18		23	
Nigeria	11		11		11	
Egypt	8		11		11	
Ivory Coast	8		4		7	
Peru	8		7		6	
Tunisia	7		10		9	
Kenya	7		5		8	
Argentina	6		8		7	
	417	(75%)	356	(82%)	393	(82%)
Other countries	59	(11%)	70	(16%)	69	(14%)
Sub-total	476		426		462	
Non-Project Disbursements	81	(14%)	9	(2%)	18	(4%)
Totals	557	(100%)	435	(100%)	480	(100%)

1/ The Bank suspended disbursements to Zambia from April 6 to April 19, 1983 because of poor debt service performance.

2/ Ranked in descending order of magnitude of project disbursements received in the first-half of FY83.

3/ Excludes front-end fee capitalizations.

A sector by sector comparison of the monthly average disbursements in FY82 and the first nine months of FY83 indicates very little growth in the disbursements on agricultural loans and significant declines in disbursements on DFC, energy and non-project (SAL and program) loans. Further, new IBRD commitments to DFC's in FY83 up to the end of March totalled $371 million, only 28% of the $1.3 billion approved in FY82.

Monthly Disbursements by Sector 1/

Project Disbursements	Average FY82	Average FY83 to End March
	(in US$ millions)	
Agriculture	118	123
Transportation	72	82
Power	63	75
DFC	61	51
Environmental Control	26	30
Industry	29	32
Urban Development	13	19
Education	13	21
Energy	32	22
Telecommunications	6	8
Pop., Health & Nutrition	2	2
Engineering	2	3
Tourism	3	3
Technical Assistance	2	1
Other	4	-
Sub-total	446	472
Non-Project Disbursements	79	60
Total All Sectors	525	532

A survey of the Regional offices indicates that perhaps as much as $75 million in incremental disbursements could arise as a result of activities currently underway under the Special Action Program (versus $150 million suggested in the mid-year budget memorandum). This amount, when added to the current best estimate for "normal" disbursements to countries still leaves the probable outcome for FY83 at $6,400 million, $900 million (12%) short of the budget forecast of $7,300 million.

1/ Excludes front-end fee capitalizations.

Cumulative disbursements to IFC were $26 million at the end of March, only 13% of the FY83 budget forecast of $200 million. FY83 disbursements to IFC are presently expected to run well under $100 million. The front-end fee is a special case; the original budget forecast assumed a 1.5% front-end fee throughout the FY and capitalized fees were projected at $155 million. The current estimate is $115 million. In total, IBRD disbursements to countries, to IFC, and including front-end fees are now projected at $6,600 million, 14% short of the budget estimate.

Overdue Service Payments

At the end of March, total overdues were $45.7 million from 29 countries with payments overdue more than 30 days totalling $19.0 million from 14 countries. The service payment overdue more than 120 days is from Algeria which has informed IBRD that it has now made this payment (confirmation is awaited from the IBRD's depositories). The following table provides an age analysis of the overdues at March 31, 1983.

(In US$ millions)

Country	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Colombia	12.1	12.1	-	-	-	-
Zambia 1/	11.9	.8	6.2	4.9	-	-
Bolivia	3.8	3.8	-	-	-	-
Togo, Ghana & Ivory Coast 2/	3.4	-	3.4	-	-	-
Dominican Republic	2.9	2.4	.5	-	-	-
Tanzania	1.9	1.9	-	-	-	-
East African Community 3/	1.3	.6	.6	-	.1	-
Kenya	1.3	-	1.3	-	-	-
Honduras	1.1	.8	.3	-	-	-
Others 4/	6.0	4.3	.8	-	-	.9
Total (as of March 31, 1983)	45.7 5/	26.7	13.1	4.9	.1	.9
Memo: as of February 28	57.5	33.3	18.5	4.8	-	.9

1/ Disbursements were suspended from April 6 to April 19, 1983.

2/ CIMAO Cement Project.

3/ Comprises Kenya $.3 m, Tanzania $.6 m and Uganda $.4 m.

4/ Each less than $1.0 m (20 countries).

5/ Of this, $31.0 m has been settled from April 1 through April 20, 1983 as follows: Colombia $12.1 m, Zambia $8.2 m, Bolivia $3.8 m, Honduras $.3 m, East African Community $1.0 m, Others $5.6 m.

(b) IDA:

Disbursements and credit service data for IDA are as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of March	Cumulative FY83 to March	Cumulative FY83 to March	Full year FY83	Month of March	Cumulative FY82 to March	Full year FY82
Disbursements	445	2,015	1,753	2,500	306	1,412	2,067
Service Payments:	16	137	140	186	14	109	156
Principal	5	44	44	58	5	33	51
Charges	11	93	96	128	9	76	105
NET TRANSFER	429	1,878	1,613	2,314	292	1,303	1,911

Cumulative disbursements in FY83 up to the end of March 1983 were 81% of the FY83 budget forecast, compared to an expected 70%, according to past experience. IDA disbursements in March were $445 million, more than double the monthly average for disbursements in the preceding eight months of the fiscal year. Of this $445 million, $301 million was to India, which usually submits bunched disbursement applications in March in time for its March 31 fiscal year-end. Total IDA disbursements for FY83 are expected to be around $2,600 million, $100 million over the FY83 budget forecast of $2,500 million. It is expected that calls made on donors for the last quarter of FY83 will be sufficient to cover this estimated increase in disbursements.

Overdue Service Payments

Total overdues at end-March were $4.7 million from 21 countries. Chad and Tanzania together account for 51% of the overdue amounts, with Chad's overdues still at $1.2 million, $1.0 million of which are more than 120 days. Though the political situation in that country has stabilized, the economy has not recovered. A Bank mission in December prepared a program for economic recovery and once that is in place, and the country is expected to settle its overdue service payments within a period to be agreed. The suspension of disbursements to Chad has been partially lifted following receipt of a partial payment of its arrears.

(In US$ millions)

	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Chad	1.2	-	-	*	.2	1.0
Tanzania	1.2	.7	.5	-	-	-
Uganda	.5	.3	.2	-	-	-
Sudan	.4	.4	-	-	-	-
Zaire	.3	.3	-	-	-	-
Congo	.2	.2	-	-	-	-
Ghana	.2	.2	-	-	-	-
Madagascar	.2	.2	-	-	-	-
Burundi	.1	.1	*	-	-	-
Sierra Leone	.1	.1	*	-	-	-
Senegal	.1	.1	-	-	-	-
Nicaragua	.1	.1	-	-	-	-
Others 1/	.1	.1	-	-	-	-
Total (as of March 31, 1983)	4.7 2/	2.8	.7	*	.2	1.0
Memo as of February 28:	4.4	1.8	1.1	.5	-	1.0

1/ Each less than $.1 m (9 countries).

2/ Of this, $1.7 m has been settled from April 1 through April 20 as follows: Tanzania $.4 m, Uganda $.2 m, Zaire $.2 m, Congo $.1 m, Ghana $.2 m, Madagascar $.2 m, Senegal $.1 m, Burundi $.1 m, Nicaragua $.1 m, Others $.1 m.

* Insignificant.

3. CAPITAL SUBSCRIPTIONS/IDA COMMITMENT AUTHORITY

(a) IBRD Capital:

At March 31, the structure of IBRD capital and reserves was as follows:

	US$ millions
(1) Capital	
Loanable Capital	2,866
Add: Unreleased Local Currency	1,861
PAID-IN CAPITAL	4,727
Amounts Uncalled	47,280
SUBSCRIBED	52,007
Unsubscribed	25,279
AUTHORIZED 1/	77,286
(2) Paid-in Capital and Reserves	
Paid-in	4,727
Reserves	3,457
FY83 Accumulated Income	613
TOTAL	8,797

1/ Total shares authorized: 716,500

	authorized	subscribed a/	subsc. as % of authorized
of which			
Part I	428,186	330,141	77%
Part II	286,417	152,000	53%
Unallocated	1,897	-	

a/ Includes agreed arrangements for the phasing of subscriptions.

(b) IDA Commitment Authority 1/	SDR Million
(1) Available Commitment Authority as of March 31, 1983	
Total Available for Commitments at July 1, 1982	128
Add: Contributions Received	
- IDA6	2,478
- Special Fund	40
- Other Resources (including IBRD transfers, credit repayments, etc.)	210
	2,856
Less: FY83 Credits Approved through March 31	1,737
COMMITMENT AUTHORITY AT MARCH 31, 1983	1,119

Additional donor pledges from Brazil, Canada, France, the UAE, and Portugal should provide SDR 210 million more for credit commitment in FY83 (bringing the Commitment Authority for FY83 to about SDR 3.1 billion), provided the required notifications are submitted to the Association by the end of the fiscal year.

4. INVESTMENTS

Relevant data on investments are as follows:

(a) By Currency:

(US$ millions)

	POSITION AT:			
	Feb. 28, 1983		March 31, 1983	
	Book Value	Yield (%)	Book Value	Yield (%)
Investments in:				
US Dollars	9,372.9	9.12	9,209.6	9.55
Non-US Dollars	2,778.4	11.75	3,186.4	11.33
TOTAL	12,151.3	9.72	12,396.0	10.01

1/ Valued at March 31, 1983 exchange rates.

(b) By Maturity:

(in US$ millions)

	POSITION AT MARCH 31		
	Book Value	Yield	Unrealized Gains/Losses
Up to 6 months	6,505	10.19	(2)
6 months to 1 year	670	10.72	2
Sub-total up to 1 year	7,175	10.24	0
1 to 2 years	3,111	9.64	(15)
2 to 3 years	329	9.90	0
3 to 4 years	357	9.80	1
4 to 5 years	817	9.60	3
Over 5 years	607	10.01	(7)
Sub-total over 1 year	5,221	9.70	(18)
TOTAL INVESTMENTS	12,396	10.01	(18)
Add: Other Cash Balances	297		
TOTAL LIQUID ASSETS	12,693		

(c) Realized Returns:

	%
Original Budget	10.75
Month of March	10.54
FY83 Cumulative	13.06

Total income from securities lending in March amounted to US$0.6 million; the FY83 cumulative figure was US$18.8 million through March.

During March interest rates in the United States moved up by about 70 basis points for 1-year maturities. The immediate impact of this was reflected in unrealized capital losses of $15 million in the portfolio at the end of March; on the other hand, the dollar portfolio was extended which raised the average yield to maturity from 9.12 to 9.55%. By the middle of April, unrealized gains stood at about $20 million.

C. IBRD NET INCOME AND LIQUIDITY

1. NET INCOME

Net income for FY83 is presently projected at $750 million, down $50 million from the previous revision in January. Loan income is now expected to be down from the earlier projection because of slower disbursements and delays in collecting front-end fees. Because the volume of cash and securities has gone up since the previous projections, income from investment could be expected to offset the lower income from loans; however, the rate of return on the investment portfolio is now expected to be somewhat lower, reflecting a faster drop in rates than had been expected in January.

With only three months remaining in FY83, the most important income uncertainty is the return on investments. Only $2.8 billion of cash and securities will be newly priced between April 1 and June 30, 1983. This means that changes in interest rates will not have a profound effect on interest income. However, on March 31, the IBRD portfolio was positioned in such a way that an unexpected 100 basis point drop in interest rates all across the yield curve would erase the unrealized losses and create over $100 million of potential gains. Capital gains, if realized, will require further adjustments in the FY83 income estimate.

2. LIQUIDITY POSITION

Total cash and securities plus expected payouts from borrowing contracts at March 31 amounted to US$ 13.5 billion. The present estimate for the year-end cash balance plus receivable on borrowings is $14.4 billion, which reflects the revised IBRD disbursement projection and an increase in the FY83 borrowing program to $10.8 billion (as recommended to the Executive Directors in the memorandum on liquidity policy distributed April 13th). If realized, this level of liquid holdings amounts to about 47% of our current estimate of the next three years' net cash requirements.

D. SPECIAL TOPIC: IBRD Overdue Service Payments Trend

The chart on page 14 tracks the month-end situation from July 1981 through the first nine months of FY83 and indicates a steady deterioration in borrowers' service payments performance, particularly in FY83. In the first half of FY83, overdues were 15 percent of the total service payments due and were on average 29 days late, compared to 11 percent and 25 days for the preceding four semesters.

The following table lists chronic offenders in two ways, first in frequency of delinquency and again when the offender's overdues are a significant proportion of what he owes (irrespective of its importance to the Bank). In some cases, the worst offenders fit both categories.

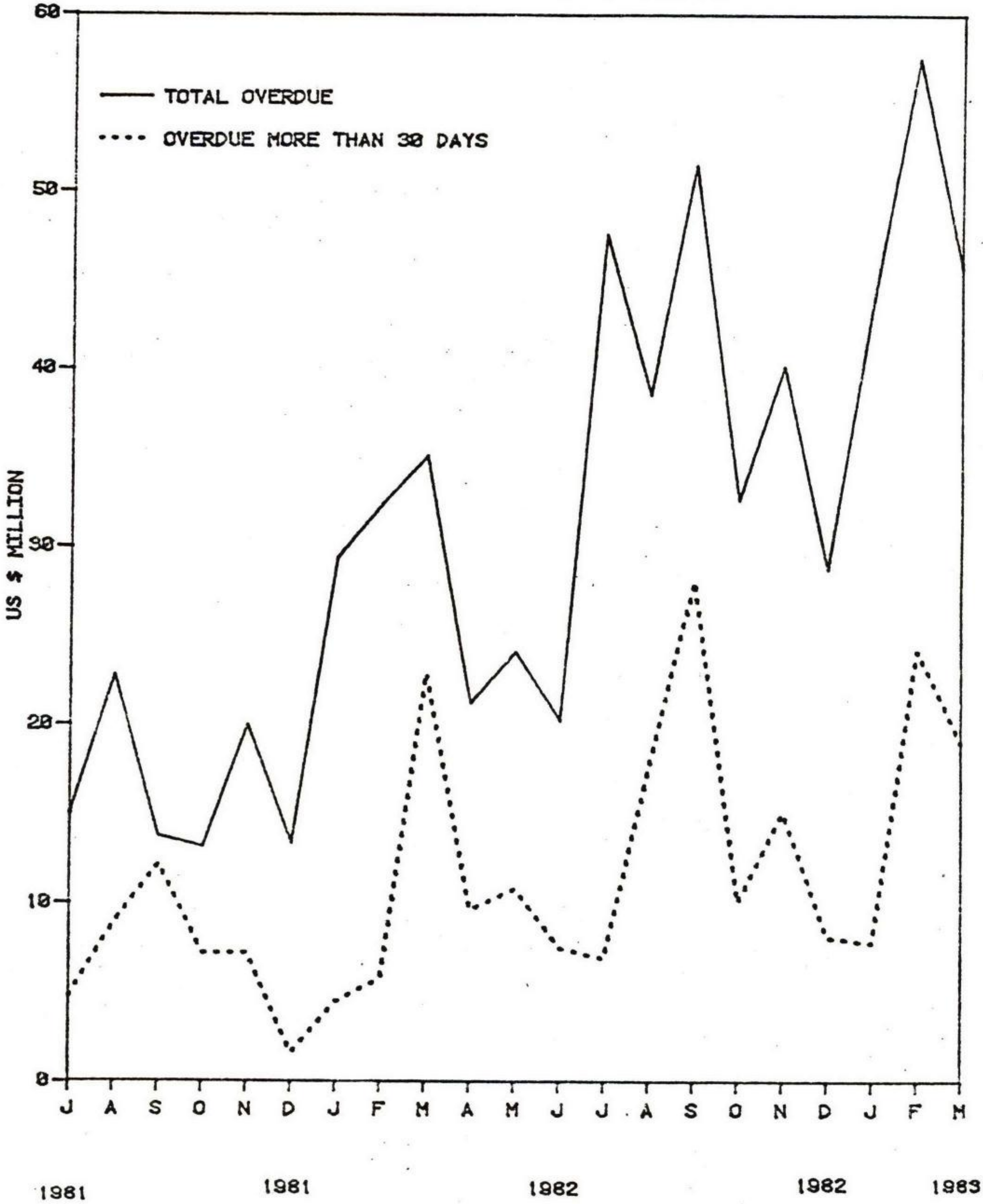
Chronic offenders 1/	Chronic offenders with large percentage overdues 2/
Dominican Republic	Dominican Republic
East African Community	East African Community
El Salvador	
Ghana	Ghana
Honduras	
Kenya	
Liberia	Liberia
Nicaragua	Nicaragua
Senegal	
Syria	
Tanzania	Tanzania
Tunisia	
Turkey	
Zambia	Zambia

Tanzania, Zambia, Liberia and the Dominican Republic are experiencing severe balance of payments problems, due to shortfalls in foreign exchange earnings, and are making only sporadic payments to the IBRD; Zambia, Liberia and the Dominican Republic recently concluded agreements with the IMF. Because of the seriousness of the overdues from Tanzania and Zambia, disbursements to them were suspended for 121 days and 4 days, respectively, in 1982. Disbursements to Zambia were again suspended from April 6 to April 19, 1983 due to poor debt service performance.

1/ Includes all countries appearing four or more times on month-end overdue service payments lists during the period October 31, 1982 through March 31, 1983.

2/ Includes all chronic offenders whose average overdue service payments at month-end during the period October 31, 1982 through March 31, 1983 exceeded 10% of their respective FY82 total service payments.

IBRD
OVERDUE SERVICE PAYMENTS



FINANCIAL REPORT FOR MARCH 1983

Summarized IBRD Financial Results

(In US$ millions)

FY82 COMPARATIVES: FY82 ACTUAL	FY82 COMPARATIVES: MONTH OF MARCH	FY82 COMPARATIVES: CUM. TO MAR.1982		FY83 MONTH OF MARCH: BUDGET	FY83 MONTH OF MARCH: ACTUAL	FY83 MONTH OF MARCH: VARIANCE	FY83 CUMULATIVE TO MARCH: BUDGET	FY83 CUMULATIVE TO MARCH: ACTUAL	FY83 CUMULATIVE TO MARCH: VARIANCE	FY83 ORIGINAL BUDGET	FY83 REVISED BUDGET
			1. KEY ELEMENTS OF INCOME								
2,391	201	1,735	Interest and other income on loans	253	249	-4	2,130	2,056	-74	2,965	2,801
955	95	717	Investment income	107	109	2	891	1,088	+197	1,200	1,426
27	4	19	Other income	2	1	-1	19	13	-6	25	18
3,373	300	2,471	Income	362	359	-3	3,040	3,157	+117	4,190	4,245
2,462	217	1,792	Financial expenses	283	276	+7	2318	2282	+36	3,246	3,147
313	31	216	Administrative expenses	37	37	-	262	262	-	362	348
2,775	248	2,008	Expenses	320	313	+7	2,580	2,544	+36	3,608	3,495
598	52	463	NET INCOME	42	46	+4	460	613	+153	582	750
			2. KEY ELEMENTS OF CASH FLOW								
598	52	463	Net Income	42	46	+4	460	613	+153	582	750
8,029	808	5,721	New Borrowings	876	949	+73	7,994	8,242	+248	9,902	11,145
2,829	405	2,315	Less: Debt retirement	350	347	+3	2,376	2,405	-29	2,967	2,939
5,200	403	3,406	NET NEW BORROWINGS	526	602	+76	5,618	5,837	+219	6,935	8,206
278	58	227	New loanable capital	17	11	-6	92	244	+152	405	350
6,076	513	4,096	TOTAL SOURCES	585	659	+74	6,170	6,694	+524	7,922	9,306
6,374	610	4,640	Disbursements	742	587	-155	5,702	4,877	-825	7,655	6,600
1,709	142	1,187	Less: Repayments	201	193	+8	1,678	1,494	+184	2,236	2,073
4,665	468	3,453	NET DISBURSED	541	394	-147	4,024	3,383	-641	5,429	4,527
174	1	150	Payments to IDA	-	-	-	26	10	-16	35	25
1,188	137	444	Increase in cash and investments	77	381	+304	2,060	3,441	+1,381	2,388	4,914
49	-93	49	Net increase in other assets	-33	-116	-83	60	-140	-200	80	-160
6,076	513	4,096	TOTAL USES	585	659	+74	6,170	6,694	+524	7,922	9,306
			3. KEY BALANCE SHEET ITEMS								
9,394		8,713	Liquid assets				11,448	12,693	+1,245	11,783	14,164
29,168		28,914	Portfolio assets				33,799	32,894	-905	35,587	34,038
38,562		37,627	EARNING ASSETS				45,247	45,587	+340	47,370	48,202
31,840		30,858	Borrowings				37,960	38,050	+90	39,602	40,408
2,680		2,685	Loanable Capital				2,810	2,867	+57	3,158	2,973
4,469		4,464	Reserves and other				4,964	4,933	-31	5,099	5,055
-427		-380	Other				-487	-263	+224	-489	-234
38,562		37,627	TOTAL LOANABLE RESOURCES				45,247	45,587	+340	47,370	48,202
			4. NOTES								
			Breakdown of Loan income:								
2,161	184	1,592	- Interest	222	219	-3	1,845	1,822	-23	2,567	2,487
191	16	142	- Commitment Charges	18	18	-	162	158	-4	234	214
39	1	1	- Front-end Fee	13	12	-1	123	76	-47	155	100
23	10	13	Contributions to Special Programs (included in admin. expenses)	4	1	-3	13	10	-3	24	24
			Net disbursements to IFC (included in net disbursements above)								
48	-	25	- Disbursements	17	6	-11	150	26	-124	200	80
26	-	16	- Repayments	3	-	-3	22	18	-4	29	29
41	-	26	- Charges	4	-	4	31	26	-5	41	41
2	-	-	Front-end fee capitalized	13	11	-2	116	68	-48	155	120
31,984		29,254	Undisbursed Loans					31,771		35,906	36,405
			5. KEY RATIOS								
			Statutory lending limit					55,161			
			- ratio of outstandings to capital					60%			
1.24	1.24	1.26	Interest coverage ratio	1.19	1.17		1.25	1.26		1.18	1.24

Controller's
04/14/83

MCR:IBRD.Compar. (w/o.Rev.)

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: May 2, 1983

NAME	ROOM NO.
To Members of the Senior	
Management Council	

RECORD
Senior Management Council

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

REMARKS:
At times private corporations demonstrate particular and helpful understanding of our issues. The attached, notably the second part, makes frequent mention of the Bank and contains a special article on IDA.

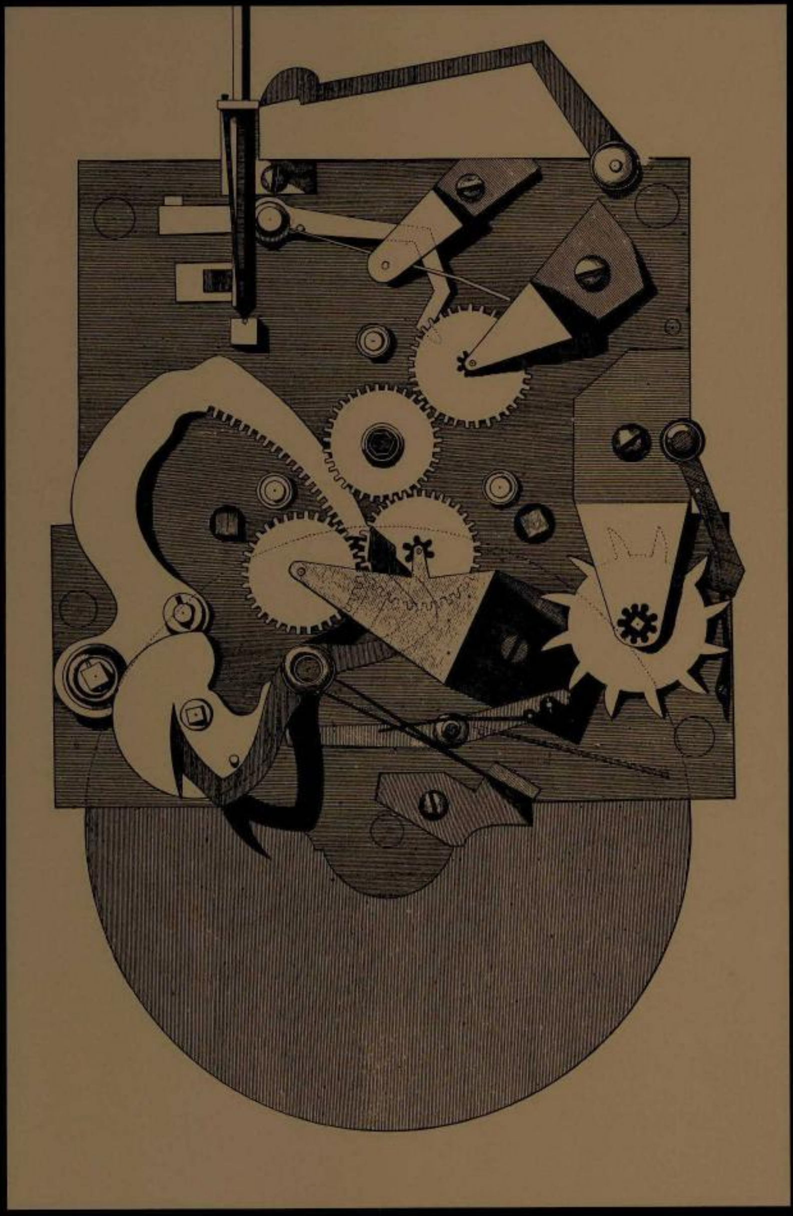
FROM: F.Vogl	ROOM NO.: E 832	EXTENSION: 72468

Mr Vogl sent 23 of these

- Apparently a copy of the attachment was given to AWC already -

bi
5/2

TOUCHE ROSS INTERNATIONAL



Everything that
enlarges the sphere of
human powers,
that shows man he can do
what he thought he
could not do, is valuable.

BOSWELL

TOUCHE ROSS INTERNATIONAL

1983 REPORT ON PROGRESS & PERSPECTIVES

LETTER FROM THE CHAIRMAN AND THE MANAGING DIRECTOR

"We are citizens of the world," said Woodrow Wilson, President of the United States during and after World War I. "The tragedy of our times is that we do not know this." Since Wilson's time, however, we have become better aware of our world citizenship. If anything, the economic and political developments of 1982 have increased our awareness of this worldwide citizenship.

Indeed, 1982 was one of the most difficult years in recent memory. Throughout most of the world, inflation continued to hamper orderly growth. Interest rates fluctuated widely, adding further risk to the plans of nations and businesses. Whole countries and multinational industries suffered from declining demand for their goods and services. Political unease and armed conflict threatened the stability of nations and disrupted trading patterns and relationships.

Yet for Touche Ross International, 1982 was a year marked by real achievement. In most ways, it was the best year in the firm's history.

The past year's increase in both worldwide revenues and profits was very good. But even more important was the exceptional growth in the number and significance of clients obtained by TRI firms throughout the world, as well as the increase of Touche Ross offices around the world from 381 to 394. The impact of such growth will be felt for years to come. We gained important new clients, including three non-U.S. *Fortune* 500 companies: Norsk Hydro A.S., the largest private enterprise in Norway; AECI Ltd., one of the major industrial groups in South Africa; and De Beers Consolidated Mines Ltd., the world's largest producer of diamonds. In the United States, three telephone companies—Northwestern Bell, Mountain States Telephone and Telegraph, and Pacific Northwest Bell—selected Touche Ross to assist them in forming a new regional holding company to take control of their segment of the Bell System when the American Telephone and Telegraph Company is divided at the start of 1984. In addition, we began serving our new clients: RCA; Dean Witter Reynolds, Inc.; and Bache Halsey Stuart Shields, Inc. And our TRI member firms gained many other prestigious clients in banking, high technology, manufacturing, communications, and construction.

We continued to strengthen our industry expertise. For example, TRI is now a leader in serving international banking. Outside the United States, TRI firms audit twenty-eight of the world's top one hundred banks. Our firms also have a leadership role in serving other industries such as retailing and construction.

During the year we also strengthened our international organization, formalizing our structure as a Swiss *Verein*. We established new World Executive Offices, appropriately located in the World Trade Center, the immense twin-towered office complex in New York's Wall Street area. Incidentally, the World Trade Center is owned and operated by a Touche Ross client, the Port Authority of New York and New Jersey.

We admitted new firms to membership in Finland, Uruguay, Ecuador, Singapore, and Spain. In South Africa we concluded a merger with Pim Whiteley & Close, one of the country's most prestigious firms; and brought in other firms by merger in Canada, Norway, the Bahamas, and Ireland. A merger process that was begun in 1981 with BDA, resulting in the third-largest accounting firm in France, has been completed. Our merger with the Italian firm of Fidimi was also consolidated this year, and we have opened new consulting and tax offices in Milan. Finally, we have concluded an extremely important merger which will take place in Germany early in 1983, when our German firm, Treuverkehr AG, will merge with Revisions- und Treuhandgesellschaft Dr. Rätsch & Co. GmbH and with Westdeutsche Industrie-Treuhandgesellschaft mbH.

The year also saw changes in the leadership of both TRI and our member firms. Having concluded his term as Managing Partner of the U.S. firm, Russell Palmer is devoting his time more fully to the role of Managing Director of TRI. David Moxley and Grant Gregory have assumed the management of the U.S. firm, serving as Managing Partner and Chairman of the Board, respectively. In Australia, Bruce Robertson has been named Managing Partner to succeed Ron Anderson, effective 1 January 1983.

The year 1982 will also be remembered for the new services we offered. One of the most important initiatives was the establishment of the U.S. firm's Financial Services Center (FSC) also located in the World Trade Center in the Wall Street area. Through the FSC, Touche Ross's professionals provide a full line of services—audit, tax, management consulting, mergers and acquisitions, and special services including insolvency services—to a focused clientele. The center has been designed as a "services supermarket" to meet the needs of the evolving "financial supermarkets" such as Prudential/Bache Securities and Sears/Dean Witter Reynolds, as well as the financial community.

There were new and expanded services in other areas as well. A new cluster of insolvency services increases our worldwide capability to help ailing companies. In another innovation, our European member firms are establishing a center to serve members of the European Economic Community and elsewhere.

This year's report on our progress describes in more detail the accomplishments of Touche Ross professionals over the past year. In addition, we are again presenting a special report in which distinguished bankers, business leaders, academics, and members of government give their perspectives on controlling inflation, the economic outlook for the Third World, the European Economic Community, investment by Arab bankers, and cooperation of foreign enterprise with China—all in the context of the overall prospect for continued world economic growth in the next decade.

This report continues another Touche Ross tradition—the use of art in our annual communication to clients and friends. This year we have chosen illustrations from Denis Diderot's great *Encyclopedia*, published in France between 1752 and 1765. This multivolume work, illustrated with more than 3,000 engravings, contains information on hundreds of subjects from technology to history. Diderot and his editors set themselves the formidable task of compiling information on all that was known to mankind. One of the attitudes underlying this work was strikingly modern. Diderot assumed correctly that human knowledge transcended national boundaries. He and his editors thus saw themselves as true citizens of the world, members, in the modern context, of a multinational team.

These thoughts about an intellectual project completed more than two hundred years ago bring us back to a matter we touched on in the beginning of this letter. Why, during a very difficult year, in a troubled economy, did Touche Ross International continue its growth and have such an outstanding year? As we look back on the accomplishments of our firms, we are struck by the realization that our philosophy has played an important role in our success.

All of us in TRI are professionals who are members of outstanding national firms—firms such as Akintola Williams & Co., Saba & Co., Neutra Treuhand AG, Nederlandse Accountants Maatschap, Schøbel & Marholt, Tohmatsu Awoki & Co., BDA, and many others. At the same time, each of us is a member of a broader order, Touche Ross International, a multinational team of equals, serving international business wherever it operates.

Touche Ross International pioneered this vision. Other firms now recognize its value and several are tending toward this form of organization. Today, even more forcefully than when TRI was founded, we are motivated by a common set of values throughout the world. We have common audit standards, a common audit approach, and coordinated worldwide strategic leadership. And most importantly, we have the right people—innovative, world-class professionals with diverse talents, interests, and an in-depth knowledge of how to serve businesses in their respective countries and internationally.

Twenty years ago our philosophy seemed right. In today's complex, changing, and sometimes difficult world it seems better than ever.

Douglas Baker

Douglas Baker
Chairman,
Board of Governors
Touche Ross International

Russell E. Palmer

Russell E. Palmer
Managing Director and
Chief Executive Officer
Touche Ross International

INTERNATIONAL GROWTH

WORLDWIDE ORGANIZATION

Early last summer, TRI held its first meeting as a Swiss *Verein*, the legal embodiment of its twenty-year professional philosophy of strong national member firms committed to the highest standards of quality and supported by central coordination and worldwide strategic leadership throughout the world.

In October, the new TRI World Executive Offices opened in the World Trade Center, located in New York City's Wall Street area. From this vantage point TRI can coordinate its international operations, ensuring quality of services and responsiveness to clients worldwide.

TRI also expanded its regional organization. A new office for the North American and Caribbean region was established in Toronto, and we relocated the Africa and Middle East regional offices from Athens to London. With the offices already established for Asia/Pacific in Singapore, Europe in London, and Latin America in New York, TRI now has six regional offices providing member firms with information and coordination of transnational client services.

MERGERS

TRI grew through mergers in five regions of the world.

In March, our South African firm merged with Pim Whiteley & Close to form Pim Goldby, one of the three largest accounting and auditing firms in the country. More than 1,100 TRI partners and staff now serve in twelve South African offices, six of which were added in the merger. Pim Goldby offers a wide variety of services and expertise to clients in many industries, and is especially strong in coal, diamond, and gold mining.

Through mergers with Bergens Revisjonsinstitutt and Mohn's Revisjonsbyrå, the Norwegian firm added six new offices. It is now Norway's largest accounting and auditing firm, serving such prestigious national and international clients as Norsk Hydro, Elopak, and Scandinavian Airlines.

Touche Ross & Co., Canada, concluded three mergers in 1982: with Davidson & Lesonsky, an accounting firm in Windsor, Ontario; with Société Générale d'Information, Inc., a management consulting practice in Montreal; and with D.K. Partners, a Vancouver management consulting practice. In New Zealand, our firm merged with Beattie Wickham Mirams & Co., adding a new office in Hamilton. In the Bahamas, Touche Ross & Co. merged with Macgregor Robertson & Co. And our Irish firm merged with H. Miller & Associates, one of Ireland's major independent management consulting practices.

The TRI firm in Italy grew significantly during the last year both internally and through merger. It consolidated a merger with Fidimi, the well-known Italian accounting firm, and established new management consulting and tax offices in Milan. The 150 partners and staff members of the Italian firm offered their expanded services to many new clients in 1982.

One of the year's most important events was the agreement reached by Treuverkehr AG, the TRI German firm, to merge with two firms: Revisions- und Treuhandgesellschaft Dr. Rätsch & Co. GmbH in Düsseldorf and with Westdeutsche Industrie-Treuhandgesellschaft mbH in Mülheim. In addition to many large public companies, clients include a wide variety of family and partnership businesses engaging in industrial and commercial activities. Among the many large clients the firm audits is Thyssen AG, whose steel, manufacturing, and trading activities extend to a great number of other countries.

ADMISSIONS OF NEW FIRMS

Five new firms were admitted to TRI membership bringing the total number of TRI firms to 54.

The merger process for the new TRI French firm, BDA (De Bois, Diéterlé et Associés), began in late 1981 and was completed on 1 September. With 320 partners and staff, BDA audits 85 of the 800 companies traded on the Paris stock exchange. BDA is now the third-largest firm in France.

KB Jaervinen, Riistama et Sihto Ky is our new member firm in Finland. Founded in 1974, the firm offers audit, tax, and management consulting services to a variety of clients, including twelve of the largest companies in the Nordic countries.

In Uruguay, TEA Consultores y Auditores, the second-largest accounting firm in the country, also became a member of TRI. Established in 1973, the firm has grown to seven partners and forty-eight staff. It serves some of the country's largest national and international clients.

The new firm in Ecuador is Stern, Naranjo & Co., founded in 1973. From offices in Quito and Guayaquil, three partners and twenty-eight staff provide services to local and foreign clients in industry, financial institutions, and government.

Medora Tong & Chow became the TRI member firm in Singapore. Established in the late sixties, the firm has grown to six partners and a staff of one hundred twenty. It specializes in setting up operations in Singapore for international companies and in serving clients engaged in banking, communications, construction, hotels, insurance, oil exploration, and shipping.

TRI's new member firm in Spain is Control Presupuestario Auditores, formed as an association between TRI's Spanish operation established in the late sixties and Control Presupuestario, S.A., Spain's leading national management consultancy firm. The new firm brings together a strong audit and tax base of major international clients, including banks, pharmaceutical companies, and retailers in Spain associated with Spain's leading national consulting firm.

TRI has also opened seven new offices in the Netherlands, four in Australia, two in Mexico, and one each in Portugal, Bolivia, Denmark, and the Netherlands Antilles. These additions bring the total number of TRI offices worldwide to 394.

TOUCHE ROSS INTERNATIONAL GLOBAL STATISTICS

	1978	1979	1980	1981	1982
Number of Countries	79	80	82	82	84
Number of Member Firms	44	43	50	51	54
Number of Offices	313	333	353	358	394
Personnel: (in thousands)					
Partners	1.5	1.6	1.7	2.0	2.1
Staff	13.5	15.0	15.3	18.2	19.1
Total	15.0	16.6	17.0	20.2	21.2

SERVING CLIENTS WORLDWIDE

Touche Ross International and its member firms continued to develop and extend their international expertise in such industries as banking, financial services, construction, retailing, insurance, and communications. Among TRI's major banking clients are the Bank of Tokyo, Banque Bruxelles Lambert, Arab Bank (Jordan), Paribas Group (France), Bank of Montreal, Royal Bank of Canada and Deutsche Bank. Touche Ross clients also include such financial services companies as Prudential/Bache Securities, Sears/Dean Witter Reynolds, and the Olayan Group (Lebanon). In construction TRI serves Kajima Corporation (Japan), Fougerolle S.A. (France), and Taylor Woodrow (U.K.); in retailing, Sears, Roebuck and Co. and Standa (Italy); in insurance, Prudential Insurance Company of America, Sun Life Assurance Company of Canada, and Phoenix Assurance Co. Ltd. (U.K.); in communications, RCA and Bell Canada—our experience with these and many other clients is the foundation of our multinational industry expertise.

NEW SERVICES

In 1982, we offered a new kind of service to our banking and financial services clients. The U.S. firm's new Financial Services Center (FSC), located in the Wall Street area of New York City, is staffed by experts in banking, securities, commodities, insurance, real estate financing, and international finance, to provide clients with the comprehensive audit, tax, and management consulting services tailored to their needs. The Center also offers expertise in several specialty areas, including mergers and acquisitions, inbound investment, turnaround or bankruptcy services, and assistance with U.S. regulations. The Center's services are international in scope, and its personnel are knowledgeably responsive to the needs of multinational clients.

THE EUROPEAN SERVICE CENTRE

In 1982, TRI decided to develop a European Service Centre based in Brussels to link TRI member firms and the various bodies of the European Economic Community (EEC). When completed, the Centre will serve the needs of clients in Europe and elsewhere. The Centre will work with professionals from TRI member firms in the U.K., France, Italy, the Channel Islands, Ireland, Germany, the Netherlands, Luxembourg, Greece, Denmark, and Belgium to serve the needs of the EEC. The TRI Centre's quarterly publication, *The Touche Ross European Commentary*, has already been launched. The Centre will provide a wide variety of EEC and related services to clients around the world.

AID TO TROUBLED COMPANIES

In a year of increased need for receivership, insolvency, and business interruption services, TRI member firms have coordinated their services internationally. When the U.K. firm handled the Laker Airways liquidation, for example, the U.S. firm helped with the transatlantic ramifications. The Dreco Energy Services Ltd. receivership in Canada also involved U.S. participation.

Services to troubled companies were also provided by TRI firms in Australia, Japan, Singapore, South Africa, and Switzerland. In Barbados the government appointed our firm to handle the Sea Foods liquidation; and in Ireland, the Irish and U.K. firms worked together with Bearcat Tire A.G., the heavy-duty rubber tire manufacturer. In Malaysia, the TRI firm was appointed receiver by fifteen banks and finance corporations; and several major private and public companies insolvency engagements were obtained by our Nigerian firm. In the United States, Braniff Airways, Inc., and Saxon Industries, Inc., the paper products and photocopy corporation, were among several important insolvency engagements.

NEW CLIENTS

TRI obtained an outstanding number of large engagements during 1982, making this TRI's best year ever.

Our Norwegian firm audits Norsk Hydro A.S., an oil drilling, petrochemical, and power generation firm. Norsk Hydro is the largest private enterprise in Norway, with interests in Brazil, Denmark, Hong Kong, Spain, Sweden, Qatar, Belgium, the United Kingdom, and the United States.

We now audit AECI Ltd., the largest chemical and explosives producer in Africa and one of the major industrial groups in South Africa.

Another outstanding South African client is De Beers Consolidated Mines Ltd., the world's largest diamond producer, with interests in gold, coal, and copper mining, chemicals, real estate, and finance companies.

One of the year's most prestigious and interesting engagements occurred in the United States, when Touche Ross was asked to assist in planning and developing a holding corporation to assume ownership of three regional telephone companies—Northwestern Bell, Mountain States Telephone and Telegraph, and Pacific Northwest Bell. The holding corporation, still to be named, will be one of seven giant new companies formed as a result of the American Telephone and Telegraph restructuring program.

Early in the spring, Touche Ross became the auditors of the RCA Corporation. This engagement is a landmark for our firm, and it represents one of the largest accounting firm changes ever made among *Fortune 500* companies. With locations around the world, RCA has interests in high technology, communications, government contracts, and financial services.

In addition, we obtained two major financial services clients. Dean Witter Reynolds Inc. is one of the largest full-line securities brokerage firms in the United States and Prudential/Bache Securities, the sixth-largest brokerage house in the United States, with several overseas locations.

Acquisitions and mergers among some of TRI's most prestigious clients resulted in increased services. For example, Conagra, Inc., a U.S. firm client, acquired Peavey Company, one of the world's largest agribusiness corporations, with consolidated assets of approximately US$850 million.

In Australia, the Commercial Banking Co. of Sydney Ltd. and the National Bank of Australasia Ltd. merged, forming the National Commercial Banking Corporation of Australia Ltd. Touche Ross & Co. is performing the audit for the new entity. The TRI firm now audits two of Australia's seven trading banks. In a further development of Touche Ross consulting work for the Australian government, our firm is assisting the South Australia government to establish a computerized justice information system.

The U.S. firm has been engaged as auditors for the twenty-three branches of United Missouri Bancshare, Inc., the largest banking complex in Kansas City, Missouri. The South African firm now audits the South Africa Reserve Bank, the country's central reserve bank, and SAPM, the second-largest savings and loan association in Africa.

Additional South African clients include Murray & Roberts Construction, the largest construction firm in Africa; SAPPI, the largest African paper company; South Africa Mutual Life Assurance Society, the oldest life assurance company in Africa; and Anglo-American Corporation of South Africa, Ltd., the holding and management firm, owning large interests in mining, industrial enterprises, and financial and investment companies.

TRI's Norwegian firm audits A/S Elopak Ltd., a manufacturer of cartons. It is among Norway's thirty largest corporations and has operations in Sweden, Switzerland, and the U.K. In Italy, our firm implemented the organization system for the Instituto per la Ricostruzione Industriale, a major Italian conglomerate with over 600 entities worldwide.

In Canada Touche Ross will, in 1983, become auditors of McKim Advertising, Ltd., one of the two largest advertising agencies in the country. The Bank of N.T. Butterfield & Son, one of the two largest banks in Bermuda, engaged the Canadian firm to recommend a comprehensive long-term systems improvement program and to reorganize its systems department. The management consulting division of the firm is helping the Canadian International Development Agency's Industrial Cooperation Program, which encourages Canadian companies to form joint ventures with other countries. Our firm is engaged in a specific project to coordinate five sector studies in Nigeria for potential Canadian investors.

In Mexico, the TRI firm was engaged by the Sociedad de Beneficencia Espanola, one of the largest private hospitals in the country, to develop long-range planning, organize a financial system, and improve hospital utilization.

Our Japanese firm, Tohmatsu Awoki & Co. (TAC), had several major international successes in 1982. TAC is now worldwide auditors for Asahi Optical Co., Ltd. (Asahi Pentax), the camera manufacturer with operations throughout the world. TAC also audits Disco Abrasive Systems Ltd., a manufacturer of automatic saws and abrasive wheels, with operations in several countries. The subsidiaries of Omron Tateishi Electronics Co. in Japan became TRI clients in the Netherlands, France, Belgium, Germany, Italy, Spain, Canada, Austria, and Switzerland in 1982, and now TAC audits Omron worldwide. TAC now audits Yamoto Transport Co., Japan's largest overland transporter of goods.

The U.K. firm was engaged by the Department of Industry to formulate and administer a program to reduce the capacity in the privately owned bright bar steel and wire drawing industry. Our firm is working to get the individual companies to cooperate in the closing of a number of sites throughout the U.K.

PROFESSIONAL DEVELOPMENTS

THE PEOPLE'S REPUBLIC OF CHINA

In May and June, Touche Ross International, the Shanghai Institute of International Economic Management, and the Ministry of Finance of the People's Republic of China (PRC) gave a seven-week program in management accounting and auditing to sixty men and women. TRI prepared all the materials in Mandarin and provided three Mandarin- and Shanghai-speaking professionals to teach the course in Shanghai. This project was the culmination of two years of work by many TRI professionals, especially those in the World Executive Offices and the Hong Kong, U.S., and Canadian firms.

Under agreement with the PRC, ten Chinese accountants worked in the Hong Kong firm in 1981. During this past year, Chinese accountants, including several graduates of the TRI course, were placed in Touche Ross offices in Japan, Australia, Canada, and the U.K., as well as in Hong Kong.

CONFERENCE ON CANADIAN-UNITED STATES RELATIONS

As a special service, the U.S. and Canadian firms, together with the Columbia University Graduate School of Business, sponsored a three-day conference to discuss the relations between the United States and Canada. Chairing the meetings were Kingman Brewster, former president of Yale University and former Ambassador to Britain, and David Johnston, principal and vice-rector of McGill University in Montreal. Three dozen businessmen, lawyers, and former government officials from Canada and the United States attended the meeting, participating in discussions that were often heated but at the same time constructive. In the end both sides reached a consensus on several issues, one being that the United States and Canada should be more sensitive to each other's economic needs and requirements, especially before either country adopts any policies that could affect the other. We plan to publish the conference's proceedings early in 1983.

CHANGES IN LEADERSHIP

Two of TRI's founding firms elected new leadership in 1982.

In the spring, David Moxley and W. Grant Gregory were elected as the U.S. firm's Managing Partner and Chairman of the Board, respectively. Both took office on 1 September, when Russell E. Palmer, who served for ten years as Managing Partner of the U.S. firm, stepped down from that position. Mr. Palmer continues to serve as a member of the U.S. board of directors. He assumed full responsibility on 1 September 1982 as the Managing Director of Touche Ross International. Carl Griffin, former Chairman of the U.S. Board, now serves as a Senior Partner of the U.S. firm and member of its board.

In 1982, Touche Ross & Co., Australia, celebrated its one hundredth anniversary, commemorating that milestone with a new history of the firm, *Accounting for a Century*. In the fall of 1982, the Australian partnership elected a new managing partner, Bruce Robertson. He replaces Ronald Anderson, who stepped down 1 January 1983. Mr. Robertson served as TRI Asia/Pacific regional partner from 1977 to 1980.

PUBLICATIONS

In 1982, TRI initiated several new publications, including a new series of booklets—*Tax & Investment Profiles*—on doing business in more than fifty countries. An especially significant professional publication, *The Touche Ross Audit Process Sampling Manual*, was also produced and distributed throughout the world during the year. *The Touche Ross Audit Process in an EDP Environment* was published and implemented.

Among the many TRI publications to come out in 1982 three stand out for distinction. As part of the Canadian firm's one hundred twenty-fifth anniversary celebration, which will take place officially in 1983, *The Touche Ross Award Collection* was published. It contains nineteen articles that have won the annual Touche Ross Canada award for the best article to appear in *Business Quarterly.* Within days after the U.S. Congress passed the 1982 tax law, the U.S. firm published *Touche Ross Planning Strategies: Tax Equity and Fiscal Responsibility Act of 1982*. The book was used in many seminars throughout the United States, and excerpts were translated into Japanese. The U.K. firm published *Financial Futures* to explain the operation of the new London International Financial Futures Exchange.

SERVING THE PROFESSION AND GOVERNMENT

During 1982, TRI professionals around the world were recognized for their professional contributions and achievements.

Akintola Williams, the founder and Senior Partner of the TRI Nigerian firm, was honored when President Shagari of Nigeria named him Officer of the Federal Republic. This honor recognizes Mr. Williams's great contributions to the economic and accounting professions.

Luis C. Diaz, managing partner of the Philippines firm, was elected President of the Association of CPAs in Public Service, one of the Philippine Institute of CPAs' four associations. Benjamin Callirgos, Managing Partner of the Peruvian firm, has been named *Contador Benemerito de las Americas*, the highest honor of the Interamerican Accounting Conference. James Malone, Chairman of the Irish firm, was appointed Managing Director of the European Federation of Building Societies, a representative body for all European savings and loan associations.

In Australia, TR partner Lance Garnsworthy was appointed chairman of the Ethics Committee of the International Federation of Accountants. Our Thai partner Somroek Krishnamra was appointed the official Thai representative to the ASEAN Federation of Accountants. The President of Nigeria appointed Arthur Mbanefo, a Nigerian partner, as a Member of the Federal Republic. In the Netherlands, Arnold A.M. van Tilburg was elected to the Board of Nederlander Instituut van Register Accountants, and Wim P. Moleveld was re-elected to a second term as vice chairman of the Instituut. And Clive Parritt and Geoff Mitchell, both of the U.K. firm, became Chairman of the London Society of Chartered Accountants and Secretary to the International Accounting Standards Committee (IASC) in London, respectively.

INTERNATIONAL DEVELOPMENTS IN THE PROFESSION

In June, Russell E. Palmer was elected Deputy President of the International Federation of Accountants (IFAC). He began a two-and-one-half-year term of office at the Twelfth International Congress of Accountants in Mexico City in October 1982. Traditionally, the Deputy President of IFAC serves as president-elect, assuming the presidency of the organization at the end of his term as Deputy. In October, Roberto Dreyfuss, managing partner of TRI's Brazilian firm, was elected Vice President/Treasurer.

IFAC, with eighty accountancy organizations in fifty-nine countries, represents more than

750,000 accountants in public and private practice, education, and government service. Through cooperation with member associations, regional organizations, and world organizations in other fields, IFAC initiates and coordinates efforts to achieve international technical, ethical, and educational guidelines for the accounting profession.

During 1982, IFAC formed a Coordinating Committee with the International Accounting Standards Committee, which has been working to promote worldwide acceptance of accounting standards. The Coordinating Committee will strive to achieve still greater acceptance of and compliance with these standards throughout the world.

IN CONCLUSION

In a difficult time with a troubled economy, Touche Ross professionals and staff worldwide responded like Diderot's citizens of the world. As this report shows, TRI people around the world cooperated and produced results to make 1982 an outstanding year for Touche Ross International. All can look back with genuine pride and satisfaction for a job well done. To paraphrase James Boswell, we have shown that even in troubled times, men can do more than they think they can. We look toward 1983 as a time of continued service to our clients, the profession, and the society in which we live.

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Bandung
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Surabaya

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Amman

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Seoul

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Kuwait City

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Luxembourg

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Bintulu
Johor Baharu
Kota Baharu
Kota Kinabalu
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Kuching
Labuan
Melaka
Miri
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Sandakan
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Guadalajara
León
Mexico City
Monterrey

MOROCCO
Casablanca

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Hilversum
Leeuwarden
Middelburg
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Schagen
's-Gravenzande
's Hertogenbosch
Terneuzen
Tilburg
Weert
Zaandam
Zeist
Zoetermeer
Zwolle

NETHERLANDS ANTILLES
Aruba
Curaçao

NEW ZEALAND
Auckland
Christchurch
Gisborne
Hamilton
Hastings
Napier
New Plymouth
Papatoetoe
Waipawa
Waipukurau
Wairoa
Wanganui
Wellington

NIGERIA
Benin City
Enugu
Kaduna
Kano
Lagos
Owerri
Port Harcourt
Warri

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Saipan

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Kristiansand
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Sandefjord
Trondheim
Verdal
Vikersund

OMAN
Matrah-Muscat

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Lae
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Port Moresby
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Pretoria
Welkom

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CREDITS

Report by Hubert F. Babinski,
Director of International Publications,
Touche Ross International and
Carl T. Burton,
Director of Communications,
Touche Ross & Co. (U.S.A.)

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TOUCHE ROSS

TOUCHE ROSS INTERNATIONAL

REPORT ON WORLDWIDE ECONOMIC GROWTH

CONTENTS

INVESTING IN A TURBULENT WORLD ECONOMY

A ROUNDTABLE DISCUSSION

PARTICIPANTS AT THE ROUNDTABLE

Kingman Brewster. *Counsel to Winthrop, Stimson, Putnam and Roberts. President of Yale University 1963-1977. United States Ambassador to the United Kingdom, 1977-1981.*

Richard A. Debs. *President, Morgan Stanley International Incorporated and Managing Director, Morgan Stanley & Co. Former Chief Administrative Officer, Federal Reserve Bank of New York.*

John Alan James. *President, Management Counsellors International. Author,* Industrial Democracy in Europe *(1975).*

Russell Palmer. *Managing Director and Chief Executive Officer, Touche Ross International. Roundtable moderator.*

William Spencer. *Recent President and Director, Citibank NA. Member U.S. Comptroller of the Currency Advisory Committee on Banking Policies and Practices.*

Laurence Tisch. *Chief Executive Officer and Chairman, Loews Corporation. Director, Automatic Data Processing, Inc. Chairman, Board of Trustees, New York University.*

INTRODUCTORY REMARKS

Russell Palmer: This roundtable discussion is part of *The Touche Ross Report on Economic Growth: A World-Wide Perspective*. The content of this report is the direction of economic growth in the future. Worldwide economic growth has been going on for many years. However, recent indicators such as fluctuating inflation, interest rates, and growing unemployment suggest that we are now working in a different world—a world which we must understand more clearly if businesses and governments are to solve their economic problems successfully.

Therefore, I hope we can talk about world growth and investment in light of such broad subjects as multinationals and private versus public activity. For example, from my recent reading, it appears that most people believe we are now dealing in a worldwide economy. Even those whose companies are purely domestic can't think any longer only in domestic terms; otherwise, their domestic market will be eroded by someone from Japan, Germany, or elsewhere entering that market and competing successfully in it. The effect of such foreign competition has been to increase talk of trade barriers and protectionism, with some countries already taking steps in that direction. Added to the problem of protectionism are the serious economic uncertainties in debtor nations such as Mexico, Argentina, or Brazil. These are barriers to growth which are definitely complicating factors for the multinationals and public agencies, influencing where they are willing to go and what they are willing to do.

THE UNITED STATES AND DEVELOPMENT OF THE WORLD ECONOMY

Russell Palmer: Dick, as an American banker, in very general terms, what role do you think the United States will play in the world's economy?

Richard Debs: The integration of the various national economic systems worldwide has been occurring for some time now. We in the United States are probably the last to have recognized it. We have not had to worry as much as others about foreign trade, foreign financing, or problems across our borders, but now the interdependence of international economies and the pressures this brings to bear on our economy is finally coming home to us in many different ways. For example, I think that something like a third of our exports go to the LDCs [less developed countries]. The fact that they are now in trouble with their debt burdens has a direct effect on our domestic economy. It's ironic that we who have fostered the growth of an interdependent world, and who have had the most impact on the rest of the world by virtue of our central position, our strong economy, our political role and so forth, have been the last to recognize that the world's economies are indeed integrated.

Russell Palmer: Let me comment on your remarks about our role in world economic integration. Countries around the world are looking to the United States to lead them out of the current difficult situation. Yet, events over the past ten to twenty years have put us in a position where we are less able to do so. We no longer dominate the world as we once did from a business point of view, nor do we still have some of the political and economic tools to make this happen on a global scale. Since other nations are looking to us for leadership, what will occur if we are unable to take on that role?

William Spencer: I will perhaps be regarded as a little heretical on this subject of international economic integration. For three decades we've embarked on a series of national and international programs for improving economic conditions for more people, and a lot of these programs have been at the expense of the real productivity that makes the world go round. We had the Marshall Plan, and it provided the basis for a renewal of economic activity in Europe. It worked. We had unparalleled prosperity in the 1950s and 1960s while we were trying to fill all the gaps in economic equality. Now we have been trying to make things much easier for more people. We all saw the political and economic decline of Great Britain caused by their overextending themselves in these same efforts.

I must confess that I have gotten tired over the years of hearing from my friends overseas about our exporting inflation when our interest rates were low. Now we're exporting high interest rates and we are ruining the world, they say. I think it's a matter of realizing that we have a worldwide economy that is tied closely together. And yet the hidden hand of Adam Smith, pointing to the essential role of self-interest, is always with us. We must work with that framework—buttressed by free enterprise—always in mind.

MULTINATIONAL INVESTMENT AND NATIONAL RESTRAINTS

Russell Palmer: All right, while Dick Debs pointed out that the United States participates in an interdependent world economy and Bill Spencer emphasized the importance of continuing our tradition of free trade within that economy—it seems a good time to ask you how possible it is for multinationals to act in the spirit of free trade.

Jack James, who works with multinational companies on their strategic planning, can comment on this subject.

John Alan James: Our experience throughout the world during the past five years clearly indicates that the multinational corporation, regardless of country of origin, faces a different and, in many cases, an increasingly hostile business environment. The recent global economic problems have contributed to the depth of animosity felt toward large corporations by a growing segment of the world's population and to a speed up in the response by local political leaders to "protect" the various local interests.

As each country attempts to cope with its own economic problems it takes fiscal and regulatory actions which greatly affect the individual company. The composite efforts of the numerous countries are to create a world filled with both risks and opportunities. While an individual company must conduct its strategic planning on a country-by-country basis, it seems to me that the larger economic problems can and will be solved only by close cooperation between the governments of the key industrialized nations.

Kingman Brewster: Yes, it's been an American belief that if you don't completely own a business, it can't be free from outside control. The oil companies would have taken that position twenty-five years ago. But one way or another, they succeeded in dealing with national ownership without losing control of or preempting the product and the right to market it. What the multinational corporation has to offer is a great deal of self-determination, a lot of know-how, both technical and managerial, as well as access to capital and reliability. Maintaining that system is terribly important to everybody, not just to businesses but also for the prospects for economic development. We'd make a mistake if we thought that freedom of enterprise depends only on the tradition of 100 percent ownership. There may well be forms of control which yield economic fruits without having to be so wedded to the notion of ownership.

FINANCING MULTINATIONALS AND WORLD TRADE

Laurence Tisch: I'm not certain that financing multinationals is the real problem. One problem for this decade will certainly be whether banks and governments will continue to finance world trade with what's happening in Argentina, Brazil, Mexico, and all of the LDC countries. Another problem will be whether a nation's imports and exports become a decreasing factor as a percentage of its gross national income. If developing countries are not loaned money, they won't have the means and productivity to buy our manufactured products.

Russell Palmer: Yes, given the volatility in the world, will financing to governments be more or less likely to continue? As one small banker was recently quoted as saying, "I was told that governments could never go bankrupt." He's finding out that may not be the case. Larry, perhaps financing will increasingly take on the form of financing through multinationals. Loans to them would be based on their own balance sheets and proven records of reliability.

Richard Debs: Yes, I think the problems of lending to the LDCs and rescheduling of LDC loans over the last year or so may have put multinational corporations in a more favorable position to raise capital for their financing needs. Most multinational corporations are strong—there are some definite exceptions—in terms of credit and access to the capital markets. Many sovereign government borrowers will have less access to the funds available due to their economic problems. Therefore the multinationals will be in a relatively better position to meet their financing needs.

Laurence Tisch: The question is whether the availability of money to multinationals really makes a difference to the volume of overall world trade. I'm not so sure it does.

Richard Debs: That gets to the question of how the needs of the LDCs will be financed. The money may come through LDC sovereign borrowing—or borrowing by its agencies—or it may come through the multinationals themselves.

I believe you will see a greater proportion of borrowing by multinationals for project financing in the LDCs. That means that the credit of the corporation rather than the credit of government is behind such financing.

William Spencer: Here's a perfect example. In this multinational view of the world, if General Electric is analyzing all of its opportunities—whether raw material supply, the labor situation, or something else that makes building a unit in Brazil attractive to them—there would be a race from the banks to see who gets there first to lend GE the money. There has been something of a consensus that a multinational company in good credit standing, with a good balance sheet and good prospects in general, is always going to be able to borrow.

Laurence Tisch: I wonder what goes on in the boardroom process of a company like GE when the question of putting a plant in Argentina or Venezuela or any country that's under the gun right now comes up. I would think that the present economic situation would be a serious deterrent to putting fresh investment into such a country.

Russell Palmer: Let me ask a question that touches on how national restraint will affect multinational financing in LDC projects. If a sovereign government is having difficulty borrowing to accomplish some of the things that it would like to do, why not, then, ease the way for the multinationals or other private enterprises who can borrow the money to come into that country? What's the prospect of the LDC government deciding at some future date to nationalize that investment as a way to accomplish the things it was unable to do because financing was unavailable? In other words, the sovereign government would decide to use the investment done by private enterprises as an interim step to accomplish its—the sovereign government's—own goals.

Kingman Brewster: The risk is very great that once a multinational has made an investment in a country, the local government will after a while change its tune from cooperation to expropriation. Nevertheless, there are ways of hedging against this eventuality beyond the existing external guarantees, such as investment guarantees or the guarantees that the World Bank has been thinking of instituting.

If the nature of the multinational's operation is based on an investment that will involve the country's whole infrastructure, the operation will have a crucial, strategic significance to the local economy and well-being of the inhabitants. If the multinational is in such a strong position because of the importance of this operation, I think a deal can often be made that once the multinational recoups its original capital plus, say 75 percent, then the local government can increase its share of the ownership in the operation.

INFLUENCE OF THE INTERNATIONAL AGENCIES

William Spencer: You must never underestimate the consolidated power of the World Bank and the IMF working in conjunction with private financing enterprises over the world. I can cite many examples of societies that really toed the line and changed their internal economic operations. They knew that if they didn't meet the maturities of a last private enterprise investment with IMF support, they would not see any more investments. Such a possibility exerts a strong leverage on these societies to fulfill their contracts.

Kingman Brewster: I think it is true that the role of the World Bank, the IMF, and the World Bank affiliates can have a very salutary influence. I can't see their bargaining power being lost just because there is great pressure to restructure the enormous existing private sovereign loans. I wonder whether the potential of co-financing in general and of the IFC [International Finance Corporation, a World Bank affiliate] in particular has been adequately exploited for all the leverage that they can apply. Such leverage might over the long run shore up the reliability of international equity investment and the repayment of loans by sovereign governments.

There was a feeling that in the shift from Robert McNamara to A.W. Clausen that there was going to be a re-examination of the potentiality of much more joint financing between the World Bank and private institutions, whether corporate or financial. And secondly, when the IFC was established it was designed to be a useful partner to have along with private ownership because it would make the local governments behave. Whether this is in fact working out or not is still not clear.

DEBT RISKS, NATIONALISM, AND PROTECTIONISM IN WORLD TRADE AND INVESTMENT

Laurence Tisch: A recent experience makes me wonder whether the real question is cooperation between governments. I had lunch with the former Communist Chinese foreign minister who was recently replaced. I didn't like his attitude on the question of debts. He was working on the theory that the world is divided into north and south and that the north is the exploiter of the south. The industrialized northern hemisphere takes the southern hemisphere's raw materials at exceptionally low prices, charges very high interest rates for its loans at the same time, and therefore the nations of the south have no obligation to repay these loans.

What worries me is that if this theory pervades the entire southern hemisphere, then international finance will become a game of lending the debtors in the south money to pay their interest rates. This may be fine to avoid periodic banking crises, but I don't think the game is going to achieve much as far as developing or increasing world trade.

John Alan James: Loans and debts between north and south can be a vicious circle. The developing nations are primarily, if not almost entirely, dependent upon raw material exports. If industrial inputs of developed nations are down, their imports are down. Developing nations are also burdened with incredible interest payments and have little or no capital funds to meet interest or principal payments. If we extend the debts or defer the payment, are we not in effect taking money out of our own industrial investment funds in order to cover these payments? If so, we are never going to get our own industrial machine back up until we reduce our own debt or create a psychological enthusiasm for reinvestment in this economy. On the other hand, keeping all funds for investment in the industrialized countries won't get the world economy going again if the developing countries cannot sell to us and therefore cannot buy anything from us. It is not a simple problem.

Richard Debs: Which goes back to our initial *macro* view of things. This problem is an example of why the forces of world leadership should be working on enlarging the total pie rather than anyone's particular portion of it. We, in this country, have to learn that as we model our fiscal and monetary policy, we must pay more attention to the impact of our actions internationally—on our allies and the rest of the world in general —and therefore on ourselves. Other nations have been much more aware of their international involvement; its impact on their economies has been obviously larger and over a longer period.

Russell Palmer: Then, what do you think of the trends in relation to trade barriers and protectionism? And how do you think these trends will affect the world economic scenario we've been discussing?

Kingman Brewster: The political pressure for protectionism, particularly that generated by persistent unemployment, is almost irresistible to a government that is supposed to represent the interests of its constituents.

Laurence Tisch: But protection does cause problems internally. When the United States does provide some protection for our industries, management does not get the *quid pro quo* from labor that it should. In other words, if we limit the amount of steel coming into the United States, there is no sense in letting labor benefit from the protected market and, by retaining their high wages, keep our steel industry the highest cost producer in the world. The same holds true when limiting the import of Japanese cars. Our own automobile industry must become more competitive at the same time.

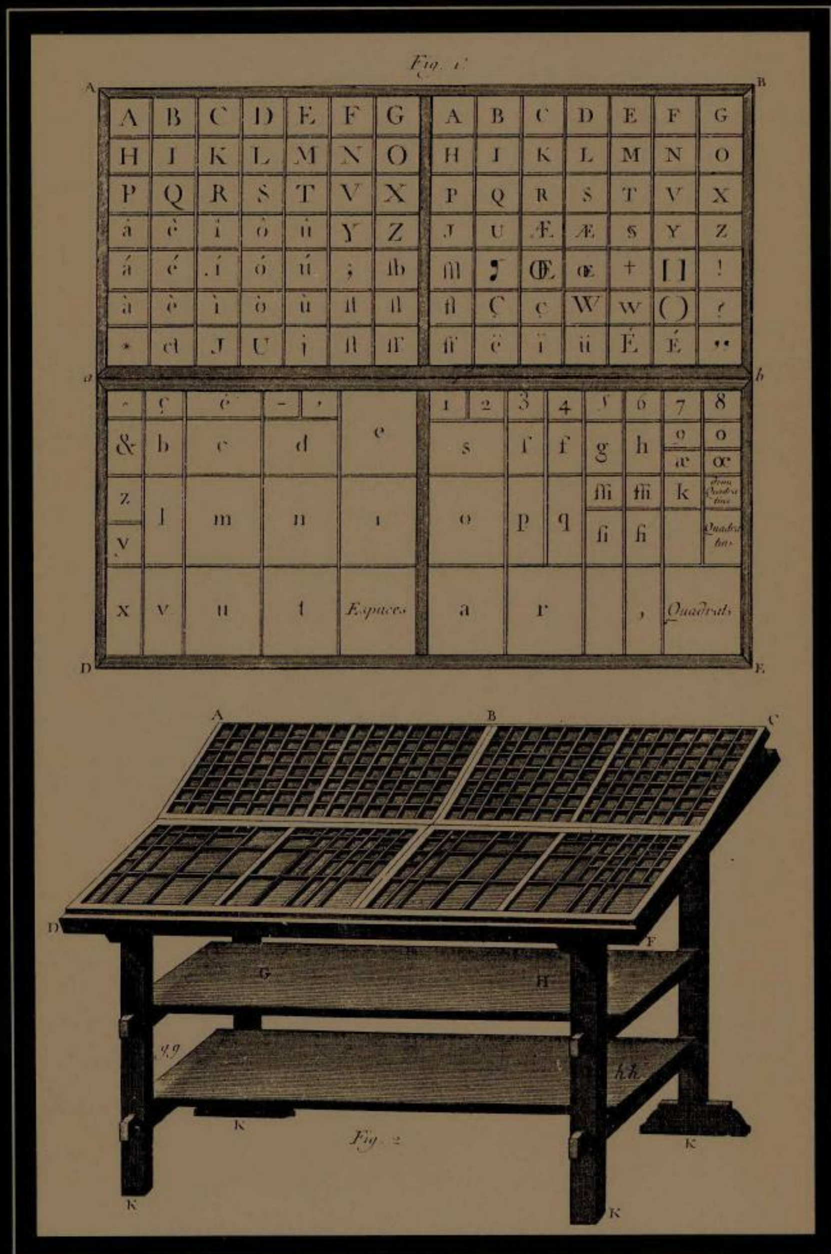
Kingman Brewster: Yes, it's important to keep alive the notion that job protection—tariff protection—is not the only technique for alleviating the pressure of competition on unemployment.

John Alan James: Unfortunately, we lack the appreciation to learn from the European experience with labor. If you're operating an enterprise in Europe, you've got a nondirect wage cost built into the total labor cost that can run 60 percent in some countries. Poor Belgium, for example, now has the highest labor costs in the world. If you are a European producer, you're in great trouble trying to compete with the Japanese, for example, or even with lower-cost American producers in spite of the currently strong dollar. So the Europeans have to figure out ways to keep Japanese products out of European markets, or get the Japanese to produce in Europe to protect their own industries.

Richard Debs: In the long run such protection doesn't work well.

THE FUTURE OF A WORLD ECONOMY

Russell Palmer: Although we've mentioned protectionism, labor costs, financing LDCs, and multi-



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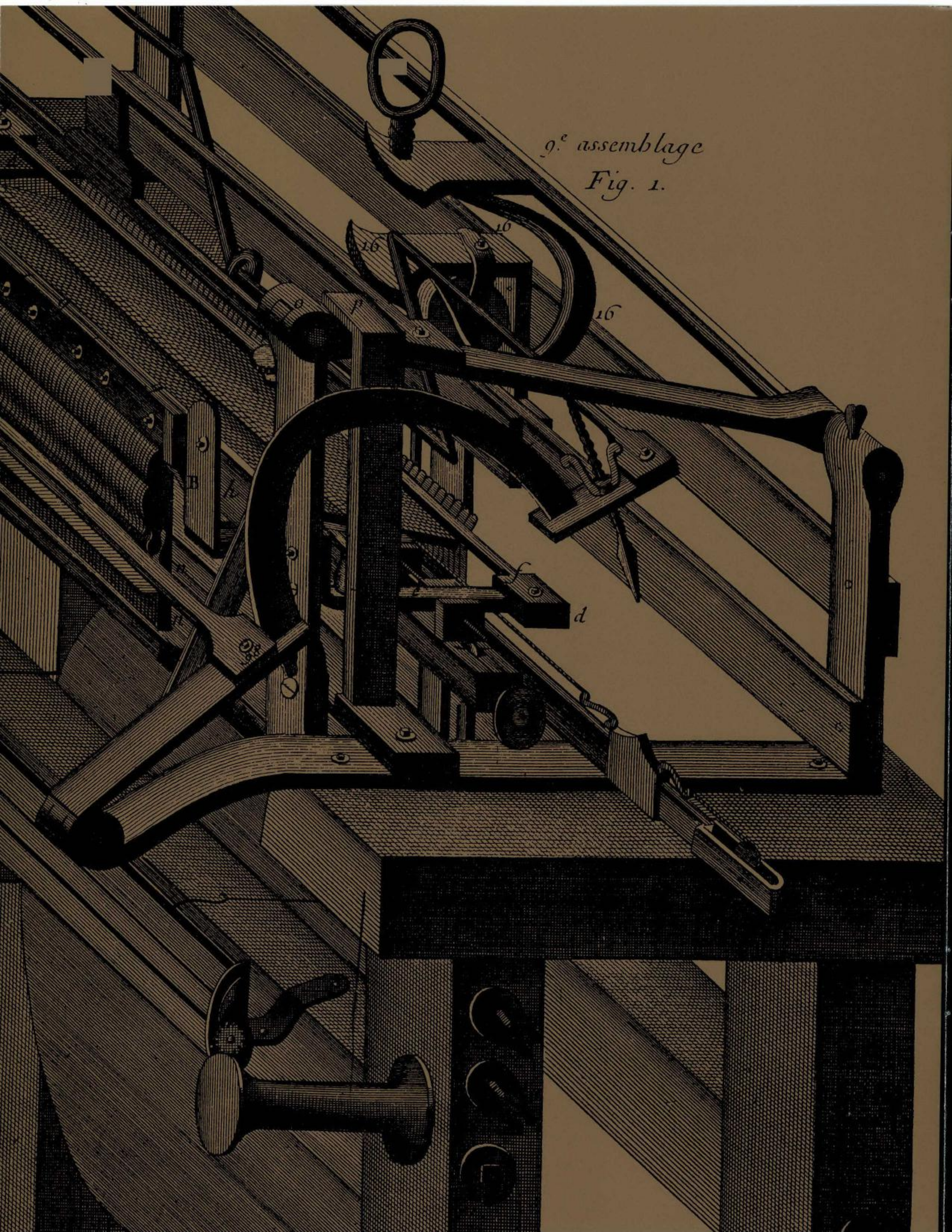
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nationals, let me ask each of you what you see in the future as major factors that will affect world business and the world economy.

Richard Debs: I think the multilateral official institutions—The World Bank and IMF—will take a more active role in dealing with the worldwide problem of financing and investment. On a bilateral basis, I think the United States and the major central banks will also be more actively involved.

We are going to see, I think, a realization by the political leadership of the world that economics, economic well-being, economic cooperation are very much a part of the political process. It has always been amazing to me, especially in the United States, that you can find such a gap between our political establishment and our economic establishment in the formulation of international policy.

Kingman Brewster: I would like to add that I have unlimited admiration for Secretary of State George Shultz who knows there is no such thing as a purely economic or a purely political problem. Fortunately, his greatest strength of experience has been on the economic side. The understanding of the deep relationship between economics and politics has been lacking in previous secretaries of state.

The first step is preventive—to hold the fort against chauvinism and a downward spiral in economic matters. The second is to bring about, not through new institutions but by using existing ones, more international stability in monetary matters. The serious prospect for real economic development in the LDCs is through private initiative in some form or another. Public institutions have a role to play and that's why a partnership between the World Bank and private developers seems to be full of promise. But the creation of markets in the Third World is ultimately going to be a task for private enterprise.

Laurence Tisch: I don't know how private enterprise will do anything unless the governments in which they are domiciled give them some tax breaks.

John Alan James: Going from the economic to the political, I think that this might be a propitious time to sit down with the heads of government in the Soviet Union to really look at one of the most significant contributions we could make to solving the world's problems—reducing spending on armaments. The Soviet bloc faces the same or even greater economic troubles than we in the West do. They are finding it increasingly difficult to repay their huge debt to Western banks. They dare not default because they would lose their credit for buying grain. If we admit that our government planning is done largely without consideration for our friends in Europe, what can we assume is our real level of understanding for the problems of our potential enemies? It's governments, then, that need to do a thorough job of strategic planning. They should spend their time on long-range strategies for internal problems with debts and deficits, with the world economy, and with world politics.

William Spencer: I think that through the multinationals, through agencies, through the utilization of private enterprise, a realistic system of international cooperation can be achieved. Whether it's a joint venture with a government or with private enterprise, when there are appropriate rewards for all parties, I hope and pray that such cooperation can and will take place. But first of all, I think that the best thing is to get our own house in order, make it productive, and make it constructive. Then we'll be in a position to talk realistically with the rest of the world about new forms of international development.

Russell Palmer: Thank you very much, gentlemen. In our discussion of investing for international development, several important issues emerged. At the present time, self-interest seems to be dominating the domestic and international policies of nation states and multinationals. The protection of jobs is obviously part of that policy. Although job protection is irresistible to politicians who want to please their constituents, it often works against generating wealth in the world. We also discussed some of the problems that developed countries are having to keep LDCs solvent. For example, the LDCs must pay the interest on their debts if money is to keep circulating internationally. And second, the constituencies of recession-torn developed countries are voicing concern that money going to the LDCs might better be used at home to create jobs and bolster the domestic economy. These and other matters have tended often to bring the multinational into conflict with the nation state. However, as our discussion showed, nations will have to rely on the multinationals, as their knowledge and ability will be instrumental in the development of the world's economy. Further, we stressed the need for greater cooperation between governments, private enterprise, and financial institutions. And we must recognize that the United States cannot view its economic considerations primarily from a domestic standpoint. Many have approached it on this basis far too long. Now we must realize that all economies are international.

This was a fine discussion, and we at Touche Ross certainly appreciate all of your views on these most important matters.

GLOBAL PERSPECTIVES

INVESTING ARAB FINANCIAL SURPLUS

by Dr. Yousif S. Fadel Al-Sabah
Professor of Energy, Economics, and Geopolitics
Chairman and Managing Director
Gas and Petroleum Studies Company of Kuwait

The Arab World enjoys the advantages of possessing a large number of natural and mineral resources. Some of these resources, such as oil and gas, rank first in strategic importance. Coupled with these resources, the Arab world has a large pool of highly skilled labour, some of whom provide the backbone to European industries. However, because of the fragmentation of the Arab world into independent small market states, the Arabs have been unable to organize themselves to use all their natural resources. The absence of free movement of labour and capital between one Arab country and another is evidence of their disunity. They stand short of the political philosophy of national building.

Nevertheless, with the increase in the price level of crude oil in the 1970s, a few Arab countries began to enjoy the fruits of having large capital surpluses. Unfortunately, these countries do not possess either skilled labour or other natural resources. Their political structures are not only unable to deal with the demands of rapid economic and social development, but are also fragile and undifferentiated. The advantages of such countries are their ability to spend money on building schools, hospitals, roads, bridges, etc., and on financial maneuvering to achieve certain political objectives. However, the liabilities are far greater than the assets—the depletion of their only resource. Oil and gas are produced in excessive quantities, generating more money than their national budgets can use.

Consequently, Arab countries with capital surpluses have increased the value of their foreign financial assets from around US $25 billion in 1974 to over US $150 billion in June 1982. The accumulated foreign assets that belong to the Arab governments with financial surpluses have increased from around US $35 billion in 1974 to over US $280 billion in June 1982. The distribution of the accumulated foreign financial assets runs as follows: 14 percent is in government bonds and treasury bills; 21 percent is in bank deposits; 14 percent is invested in private companies, bonds, and shares; and 11 percent is invested in different forms of real estate. Most of the accumulated foreign financial assets, however, are in Eurodollar deposits, which represent 40 percent of the total. In spite of the fact that private Arab foreign investment was almost negligible in the 1960s, it has increased in value to around US $50 billion in 1982. Most of it goes into Eurodollar deposits and real estate. It is expected to increase primarily because the businessmen in the Arab Gulf region fear political instability. The Arab Gulf States have absorbed large amounts of private capital which went into forming investment, insurance, transport, and construction companies and banks.

Some of that capital was invested in small manufacturing activities. When these banks and investment companies get larger and stronger, they will continue to invest large amounts of money outside the Arab Gulf States. One hopes that some of the money will go into the Arab capital deficit countries that are looking for capital. But this is only wishful thinking because of the tragic mistrust among the Arab countries.

This picture of government and private Arab investment policy has attracted criticism from some Arab intellectuals and businessmen. The justification for the present policy of foreign investment is based on the Arab world's inability to absorb large doses of capital. Such an excuse is not acceptable, academically or practically. If these Arab assets were to be spent on building the infrastructure of some Arab countries, more capital would be needed than Arab countries with capital surpluses now possess.

The real problem is that Arab countries do not have a plan to coordinate their economic policies nor do they intend to do so. The absence of trust and of the free movement of capital and labour between one Arab country and another are great obstacles. The argument for the Arab world's inability to absorb capital is not only invalid but also represents a basis for foreign banks' attracting more Arab capital, which is now at the mercy of the vagaries of a defunct international monetary system.

The Arab foreign financial assets in the Western world and Japan now face the most dangerous financial and monetary crisis in the history of mankind. The real value of the accumulated financial foreign assets has already declined from US $280 billion to US $125 billion, and the return on them has dropped in real terms from US $30 billion to around US $12 billion. However, this is only the beginning of the real decline which will eventually wipe out all the real value of the Arab foreign financial assets in the Western world and Japan. This is no longer a speculation. It is taking place gradually, but it could happen in one big bang as a result of Mexico's or another big deficit-borrowing country's defaulting, setting off a series of bankruptcies among large U.S. banks and spreading worldwide to include the blue chip companies. These events are more likely to take place sooner than later because banks have extended loans to the tune of over 40 percent of their capital and resources to deficit countries in Latin America, Africa and Asia. Rescheduling the debt of Chile, Argentina, Mexico, Brazil, Poland, and other large borrowers will not solve the problem. It might delay the real crush of the creditors with whom the Arab money is entrusted. If the foreign banks are unable to look after their own money, why should they look after Arab money better than their own?

This and other questions bother Arab intellectuals who are very concerned with their national financial resources. However, such questions do not mean that Arabs want to live in isolation from the rest of the world. The Arabs are a part of it, and there is a mutual interdependence that nobody will deny. Nevertheless, the Arabs must have control over their resources for national interests by building their own financial institutions to direct their financial resources away from dangerous areas in the world. Some of these institutions are already in the making, but time is a problem.

The real problem engulfing the Western world and Japan is the duration and the depth of the general economic recession coupled with irrational fiscal and monetary policies pursued by their governments. The inability to ease the economic recession can not be blamed on higher oil prices but on the lack of technological inventions and innovations. From the year 1500 to the present, the economic growth of industrial countries was always led by a series of technological inventions. In the past, the industrial sectors in the developed countries offered a healthy rate of return on capital but now the rate of return is negative. Therefore, Arab money should seek alternative sectors or, better, leave oil under the ground until the new industrial or agricultural sectors are developed, leading to new economic growth. However, this development needs time and money. Time is beyond the Arabs' ability but they do have capital. Nevertheless, it is too risky for the Arab countries with financial surpluses to go into capital ventures without control of what they are financing.

As far as the less developed countries are concerned, one fact remains—even if all of them are successfully able to sell all their exportable products, they will never be able to pay back their debts. This applies first to the large borrowers, such as Mexico, Brazil, Argentina, and Chile, whose currencies are overvalued by 30 percent in relation to the U.S. dollar and 20 percent in relation to the German Mark, the Swiss Franc, and the Pound Sterling. Almost all their loans have gone into financing consumption rather than developing productive economic activities. The management of their economics is also in bad shape.

The Arab world and especially the Arab countries with capital surpluses have three alternatives. First, they could reduce their oil output to a minimum level. They could produce less than the needs of their national budgets and meet the balance by drawing on their capital surplus abroad. This policy would wipe out the capital surplus altogether. After that, they could produce oil and gas products according to the needs of their national budgets. Second, if they choose to invest abroad, they should invest in the Arab countries that possess natural resources and skilled manpower. Third, if the Arab oil exporting countries with capital surpluses choose to invest in non-Arab industrial countries, they should insist on control and guarantees, with emphasis on companies that possess technology and products that Arab countries need. This sounds pessimistic or rather conservative. However, it is wise to be on the safe side rather than follow the advice of foreign bank executives who recently gave not merely a zero rate of return but a negative one. It is about time that the Arab ministers of finance make up their minds. Otherwise they will face the same problem that confronted the oil ministers when the oil industry was under the control of the major oil companies. In Kuwait, the parliament voted no-confidence to the ex-minister of oil and finance to the extent that the government could not bear to have him any longer as part of its cabinet. Now it is finance's turn. What is just beginning in Kuwait will soon spread to the other Arab countries with surplus assets.

ON COOPERATION OF FOREIGN ENTERPRISE WITH CHINA

by Dr. Armand Hammer
Chairman and CEO
Occidental Petroleum Corporation

I have been engaged for most of my life in promoting international trade, because I firmly believe that harmonious commercial relations among countries around the world are indispensable to peace. I also believe that to an entrepreneur the selection of cooperative counterparts is very important and requires meticulous consideration.

China, in my estimation, is now offering bright prospects. Due to its comparatively stable situation in politics and its ever increasingly open attitude in economics, China at this time is quite an ideal partner for foreign joint ventures.

However, the range of cooperation is linked with the development of China's national economy. In the fields of agriculture, transportation and energy, we might find numerous items of joint effort. China has placed as priorities the construction of railways and international harbors, as well as the exploration of coal, offshore oil, waterpower and atomic-powered electricity. Each of these fields provides many opportunities for foreign investment, and even greater opportunities exist in large-scale and long-term ventures.

Nevertheless, although the door is opening wider and wider, cooperation with China is not an easy task to be treated lightly and accomplished in one move. Successful negotiation is always time-consuming and, especially for the large projects, no bargain can be struck within months. It is advisable for the foreign negotiators to provide their counterparts sufficient information and to make arrangements as meticulously as possible. This accelerates the process of negotiation. Owing to their lack of experience in world trade and being novices in the area of joint ventures, Chinese negotiators take a lot of time to study some very fundamental concepts and terms which seem common and self-evident to us. The incompleteness of commercial codes and statutes further aggravates the difficulties in the negotiation. Thus, we have to face the reality with patience. Through my contacts with the Chinese, I have perceived that they themselves have also been aware of this situation and are working hard to ameliorate it. Entrepreneurs with far-sightedness and indefatigable efforts are most likely to be paid off by fruition of their project, but those eager for quick success and instant benefit are liable to experience frustration.

For foreign enterprises seeking a joint venture with China, it is also advisable to climb the ladder of contacts as high as possible during the process of negotiation. In China, negotiators for almost all transactions regarding foreign affairs are not the decision makers. Decisions are made by the head of competent governmental authorities, after the subordinates have studied and discussed all the details of that project. So, in order to make things easier and simpler, we have to help out the consensus by striving to converse directly with the higher level without neglecting the immediate counterpart. The euphoria which Western entrepreneurs have experienced in the past several years towards business with China sometimes, in its opposite extreme, has caused disappointment. However, China is a developing country and is now becoming more and more flexible. The potential of doing business with China during its development is great. But the door leading to success opens only to those who have a realistic attitude, patience and understanding of the Chinese situation and its modus operandi.

THE EUROPEAN COMMUNITY: SUCCESS OR FAILURE?

by Sir David Nicolson
Member of the European Parliament

A STATE OF UNCERTAINTY

The position of the European Community (EEC) vis à vis the rest of the world has changed dramatically during the last few years. In many ways, Europe appears to be more uncertain of its future today than it was ten years ago. This uncertainty manifests itself in both military and economic terms.

The basic problem of defense profoundly affects collaboration and understanding between the two pillars of democracy—the United States and Europe. Western Europe feels threatened. During the period from 1960 to 1975, evidence of growing cooperation between the super powers in economic, financial and cultural matters gave Europe hope that the period of Cold War during the 1950s would give way to a prolonged era of East-West detente. For a time, the military balance between the United States and the Soviet Union appeared to be approaching equilibrium.

Since 1975, however, these hopes have gradually dissipated. Soviet military power and interventionism have continued to increase. Russia has developed a strategy of "peripheral aggression," increasing her naval forces, intervening outside her usual zone of influence, and using her satellites to carry out politically destabilizing activities. Medium-range missiles have been installed facing Western Europe.

Meanwhile, the military and political power of the United States has been waning. Her international credibility, already damaged by the Vietnam War and Watergate, has been further eroded by the weakness of the dollar and the abandonment of conscription in 1973. In addition, recent uncertainties and hesitations in U.S. foreign policy and pronouncements by

American politicians about the use of U.S. strategic nuclear arms in the event of conflict in Europe have disturbed European statesmen. This explains the temptation in certain European quarters to adopt a neutral or pacifist position.

Within this overall framework, we must take note of the particular problem of Germany, which many believe lies at the heart of European politics. We must recognize her desire to facilitate exchanges between East German and West German people and the dedication of every German politician to the eventual reunification of Germany. Sixty percent of East Germany's trade is now with West Germany, and Western bank lending to the East has escalated in recent years. West Germany, therefore, views a return to the Cold War mentality of separate East/West blocs as a tragic retrogression, contrary to economic, financial and cultural realities.

Economic problems experienced by the world's industrialized countries in recent years have added to the present mood of uncertainty in Europe. Energy prices have soared, with particularly disastrous effects on many European economies. International competition has intensified considerably, and the established economies of developed countries are having more and more trouble keeping up. Europe and the United States are burdened by aging industrial infrastructure, increasing costs of production, and ever-enlarging demands for social payments. Meanwhile, all classes of Western society remain determined, come what may, to maintain and even increase real incomes in the face of these problems. The result has been a social and political malaise so severe in certain European countries as to cause a fundamental reevaluation of basic economic principles.

THE RATIONALE FOR EEC

Against this backdrop of recent political and economic developments, let us review the major purposes of the European Community and reasons for the United States' continuing support of this effort. The Community, as it was designed to do, has replaced war with peace. Incalculable were the effects in the last war of 54.5 million dead throughout the world. It was like wiping out the whole of the United Kingdom in one blow. Indeed, to prevent the nuclear obliteration of Europe or the United States is one underlying reason for a strong European Community and a strong Atlantic alliance. Another important purpose of the Community is to preserve democracy. We must remember there are now only 25 democracies in the world, and 17 of these are in Europe. The Community also enhances the political influence of its European members. The 10 countries of the European Community have considerable political power when they work together. A final, equally important reason for the existence of the European Community is economic interest.

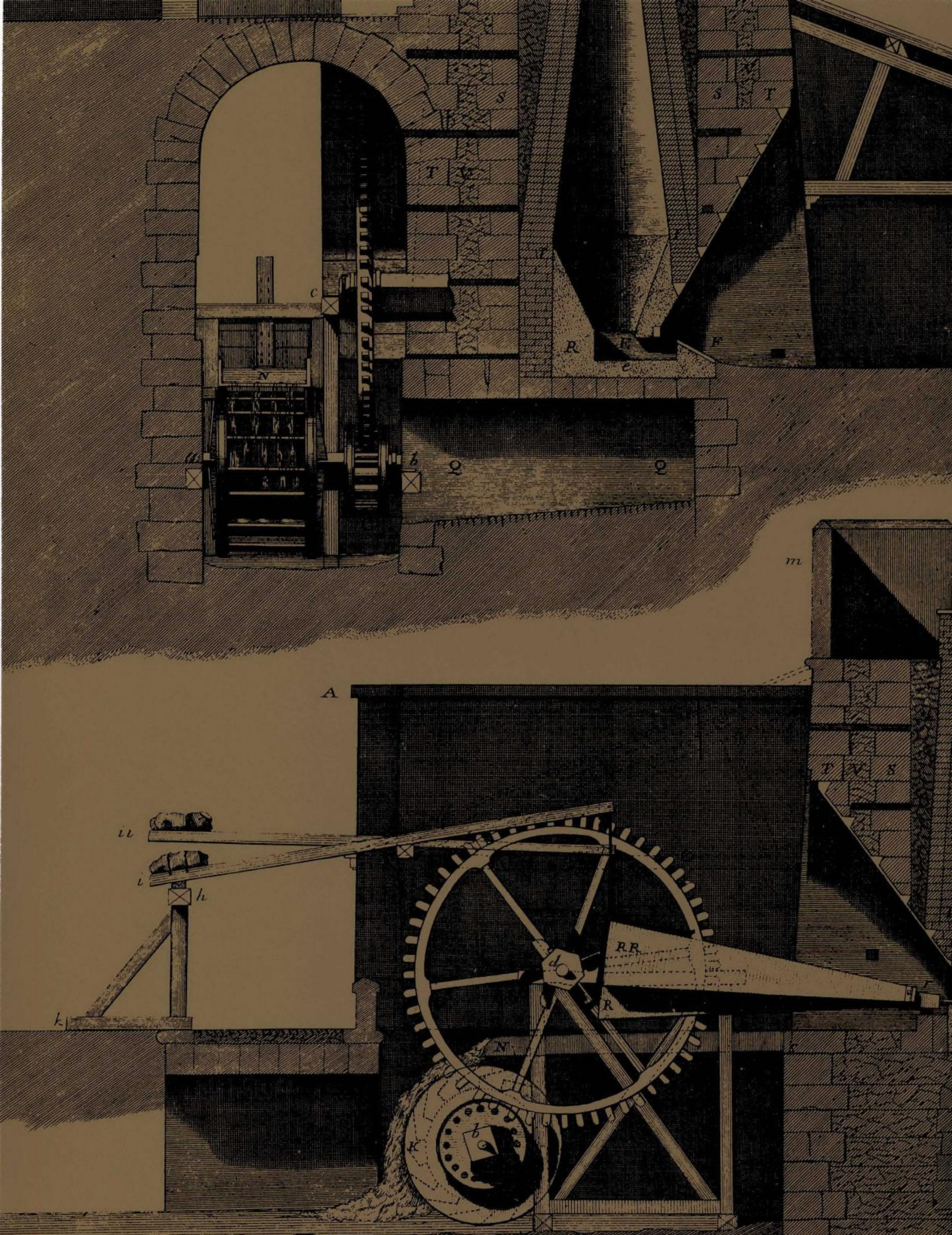
The U.S. supports these objectives as they strengthen the political, economic and defense position of Western democracies. Certain economic facts of life further reinforce U.S. support for the Community. There is a huge U.S. investment in the EEC. U.S. investment in 1980 in the EEC was 64 percent of the world total. By 1980, US $41 billion had been invested in manufacturing industry in the EEC countries.

ACCOMPLISHMENTS

By acting as a framework for orderly change in a turbulent era, the Community has performed a vital function. Let us now look at some initial positive results of this cooperative effort. Western Europe has experienced 37 years of peace, an unprecedented period of harmony for this part of the world. Though politically disunited, Western Europe, within the flexible and unifying structure of the Community, is getting stronger politically, economically and militarily.

In 1955, Western Europe's GDP was three-fourths the size of the U.S. GDP. Today, it exceeds the U.S. figure. In 1955, Western Europe's combined defense spending was less than half of U.S. defense spend-

Architecture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ing. Today, it is about 75 percent of the U.S. level. Total research and development (R&D) expenditure in Europe (US $40 billion) is almost equal to U.S. R&D expenditure (US $44 billion).

In addition, economic cooperation among EEC countries is beginning to bring about positive results in specific industries that have traditionally suffered from over-capacity and the effects of foreign competition. In the steel industry, policies for prices and quotas and restructuring are being laboriously worked out by the ten countries. The battered textile industry speaks with one European voice in negotiating renewal of the multifibre agreement. We can already see the need for similar cooperation in other European industries. Saudi Arabia is penetrating European chemical markets with ammonia and methanol, for instance, and Europe is about to be flooded by cheap coal from North America.

PROBLEMS AHEAD

One of the chief problems facing the EEC today is the question of how to deal with Japan. In the near future, Europeans are likely to resort to protectionist measures against Japan, probably at the EEC level. The threat from the Pacific is like a shotgun battering the whole of our high-technology sector. Europe's trade with Japan is already huge and growing rapidly. Mass unemployment, steadily worsening, has put enormous social pressures on European governments. Whatever their beliefs in free trade, European governments are being forced to look at protectionism as the alternative to being voted out of power. The risk in establishing a protectionist policy against Japan is that it will spill over into more general discrimination. Even the "reciprocity" legislation contemplated in the U.S. could begin to affect relations with the EEC.

For best results in the future, all trade negotiations with Japan should be carried out with one European voice. In addition, a European team should sit down with U.S. representatives and plan an extension of General Agreement on Tariffs and Trade (GATT), dealing firmly with such matters as subsidies and export credits. This way, we can prevent the trade war looming on the horizon. We must also focus on the Third World and combat the growing Soviet influence there with a package of aid, investment and reciprocal benefits determined on a European basis. (The Community gives 35 percent of total world aid, while the U.S. share is only 12 percent. U.S. policy on this issue is tragically short-sighted.)

The urgent need to respond to commercial competition is not the only problem that lies ahead for the EEC. Inevitably, more external political crises will occur. As in the past, these crises will force the Community to integrate its political interests even more closely. This is perhaps the most significant trend of all. A succession of crises—in Iran, Afghanistan, the Middle East, Poland, and most recently, the Falklands—has forged a political unity among EEC countries which could never have been effected through planning or political will alone.

Reconciling the political interests of the Community with those of its prime ally, the United States, during future crises will be one of our most important challenges. Though there may be a tide flowing toward the integration of Europe, this tide must not carry Europe away from America. We both have far too much to lose. We both, however, will not always agree.

ASSESSMENT

Is the European Community a success or a failure? It is far too early to say. After a thousand years of disunity and bloodshed, the cradle of modern civilization may well be on the road to unity as a means of self-preservation. Many major issues have yet to be tackled. Internal protectionism, self-interest and nationalism are still very much alive. However, exciting new steps continue to be taken, like the convocation of the first directly elected European Parliament, which is now struggling to establish its influence.

As a community based on democracy and free enterprise and as a major force for peace, the EEC deserves the support of the Western world. As it evolves, it is becoming a forceful voice in foreign affairs, trade and social development. While there may not always be agreement between us on every issue now and in the future, Europe and the United States stand together nevertheless as two pillars of the Western world promoting the advancement of civilization. If the European Community does succeed, it will change the face of the world for the better. If it does not, it will go down in history as the most fundamental attempt at change since the French Revolution.

MEXICO: ECONOMIC PERSPECTIVES FOR THE NEAR FUTURE

by Adán Elizondo
Executive Director, Grupo CYDSA

CURRENT STATUS

Speculating about the future of the Mexican economy today is very risky. There is much confusion and uncertainty and not enough reliable information to make an economic forecast. However, we can attempt some predictions.

Mexico's present economic situation is grave: we have a huge foreign debt we cannot pay, very limited or no international reserves, an inflation rate nearing 100 percent, and increasing unemployment. Added to this is a general lack of confidence in the way government is managing these problems.

FOREIGN SECTOR

The foreign sector of the Mexican economy will raise serious and practically intractable problems in 1983. If we are able to export 1.5 million barrels of oil per day in 1983, we will obtain US $17 million in export revenue at current prices. Based on 1981 experience, we can assume other exports will be in the neighborhood of US $5 billion. This would bring total export income to about US $22 billion in 1983.

According to the statements of the government and Banco de Mexico, interest owed in 1983 on a foreign debt of approximately US $80 billion could add up to as much as US $13 billion. If this is so, only US $9 billion of the total US $22 billion in export revenue will remain for the purchase of imported food, medicine, and industrial inputs. During 1981, Mexico imported US $23 billion worth of these items. For 1983, an estimated US $15 billion will be required to pay for the most necessary imports.

At a minimum, therefore, we will need US $28 billion to cover anticipated interest payments and the import of vital goods. Assuming total export revenues of US $22 billion in 1983, Mexico will be short by US $6 billion, even without any redemption of the foreign debt.

If US $13 billion is actually required to cover our interest payments, then we will only be able to import (officially) about 60 percent of our minimum import requirements. We can expect the remaining 40 percent to be sought in the parallel (illegal) market. Two things will happen as a result: there will be a shortage of imported industrial inputs, and the price of dollars in the parallel market will rise.

DOMESTIC SECTOR

The domestic sector of the Mexican economy is not doing much better than the foreign sector. It is characterized by a great distortion in the balance of supply and demand. This distortion results from past governmental intervention in the form of price controls and, above all, in the granting of immoderate subsidies to maintain very low prices on many products. Such pricing conveys unrealistic information to consumers and investors and leads them to make wrong decisions and in many cases to speculate in those products.

Another problem of the domestic sector is the recent history of excessive governmental expenditures in both the current and capital accounts. These vast expenditures have caused valuable funds to be transferred from the productive sector to the less productive sector and have created a very large deficit (16 percent of the Gross Internal Product in 1982). This deficit has been financed through an increase in the money supply, which produces strong inflationary pressure.

NEW GOVERNMENT

Mexico's new President Miguel de la Madrid Hurtado has pledged to reduce governmental price subsidies to a minimum, to make drastic cuts in the deficit, and to maintain a reasonable peso-to-dollar parity. These promises are encouraging.

However, we cannot expect the Mexican government to take severe measures as far as expenses are concerned, because of the social pressures these cuts would generate. Therefore, the deficit will be decreased, but not eliminated. Even though financing by means of internal debt might be attempted, it will prove impossible to implement since it would strangle the private sector. Based on these conclusions, we can expect a continuing deficit and high inflation in spite of the recent change of government.

PREDICTIONS

In the short run, therefore, there are not likely to be any substantial changes in the basic problems of the Mexican economy. Specifically, we can anticipate the following economic conditions to prevail during 1983:

1. A progressive reduction of subsidies for food and basic products, which automatically will result in higher prices to the consumer.

2. An increase in production and sales taxes.

3. An increase in prices of products and services rendered by state companies (fuel, gas, electricity, steel, railroad freights, and so on).

4. An increase in interest rates as a result of inflation, which may encourage people to save.

5. An official peso-to-dollar parity that continues to reflect differences between Mexican and U.S. inflation rates.

6. An active parallel market with a spread of 50 to 60 percent above the official parity and a decreasing trend toward the end of the year.

7. A transfer of huge amounts of resources from the banking system to the public sector to finance the deficit, with only small amounts available for the private sector.

8. Inflation unabated.

CONCLUSIONS

In summary, 1983 will most likely bring recession coupled with inflation. Many businesses will either close down or operate below capacity. Many people will be unemployed, and we will all suffer the ills associated with such severe economic problems. There are also some risk factors that may make the situation still worse. In my view, the main risks are: a drop in the price of oil, or drastic reductions in Mexican agricultural production, or both.

Nevertheless, there are reasons for some hope. On the one hand, the parallel market might be legalized. Then, exports could increase substantially in view of the dire need for the generation of foreign currencies and the possibility of obtaining a good price. On the other hand, there could be a significant reduction in the interest rates on the foreign debt. Each percentage-point drop would provide almost a US $1 billion gain in our balance of payments, which in turn would buy one-seventh of the necessary inputs not covered by our exports.

December 1982

IS THE IDA THE NEXT CRISIS IN THIRD-WORLD FINANCE?

by Michael O. Alexander, Executive Partner Professional Services and Resource Development, Touche Ross International, and Dwight L. Allen, Jr., International Services Director, Touche Ross Washington Service Center

Three sets of voltage regulators are supposed to keep the world's financial grid humming and prevent power failures: the International Monetary Fund (IMF) manages debt financing; the General Agreement on Tariffs and Trade (GATT) resists protectionism; and the World Bank furnishes development aid to help poor countries reach self-sufficiency. The news media are reporting the current troubles of the IMF and GATT, but less publicized and potentially as worrisome is an approaching crisis at the World Bank.

The problem is with a component of the World Bank called the International Development Association (IDA), which finances economic development measures in the poorest of the Third World countries. IDA is facing an immediate financial shortfall, and talks among the contributor nations about the program's longer-term funding are just getting off to an inauspicious start.

There is thus even more to worry about than the debt woes of major South American and East European countries and the deterioration of free-trade accords. Despite IDA's relative obscurity, its failure could have pervasive effects: on the governments of China, India, and numerous other poor Third World countries; on broad segments of the international business and financial community; and on several regional development finance agencies.

WHAT IDA DOES

Picture the World Bank as a financial institution with two teller windows. One is labelled "International

Bank for Reconstruction and Development" (IBRD) and the other "International Development Association" (IDA). Both are operated by the same banking organization, but they dispense different services.

IBRD is the World Bank's "hard-loan" window. The stronger developing nations come here to obtain credit at near-market rates. Their governments use the proceeds—along with the funds from commercial banks, foreign aid programs, and their own treasuries—to contract with engineers, architects, construction firms, manufacturers, consultants, and others to mount projects for building roads, dams, ports, power plants, irrigation systems, and sewers—"infrastructure" for a growing economy.

Through the IDA window the Bank makes loans with "soft" terms: no interest, 50 years to repay, and a ten-year grace period. The soft-loan window is understandably popular, but the Bank generally limits access to countries with an annual per capita GNP of less than US $731 (1980 dollars). As with IBRD loans, IDA loans are used to help pay for infrastructure projects. But given the problems facing countries in this group, large amounts are also spent on even more fundamental items: health care, education, small-business assistance, birth control, and agriculture.

World Bank loans pay for only a portion of each project, and its lending is but a fraction of total credit activity in the Third World. But the Bank's significance is not measured solely by the dollars it lends. Nations do not get to be IBRD or IDA customers until they have satisfied Bank standards regarding their macroeconomic growth strategies and their project management procedures. Recipient governments get involved in extensive planning and consultations with Bank staff and typically end up adopting policy reforms and administrative improvements as a result of the interaction. Conditions attached to loan agreements require that projects be well executed. Obviously not all of this works and World Bank customers do not become exemplars overnight. Nevertheless, the international banking and business community on the whole regards the IBRD and IDA programs as positive forces in phasing poor developing nations toward higher levels of stability and creditworthiness. In many cases, World Bank participation in a given project is the catalyst that enables private bankers and corporations to also buy in.

The World Bank likewise cooperates with other international lending agencies, such as the Asian, African, and Inter-American Development Banks. They jointly plan and fund many projects.

WHY IDA NEEDS MORE MONEY

The building crisis at IDA starts on the demand side of the equation. The low-income developing nations have always found the IDA's funding insufficient compared with their aggregate credit requests. Several converging events and trends are now likely to make things tighter.

In 1980, the People's Republic of China joined the World Bank, and the Chinese government wants significant IDA assistance. With a population of 1 billion and per capita GNP of US $290, China could, all by itself, drain much of the IDA loan pool. But it so happens IDA already has another giant Asian nation as a customer: India. Since 1968, India has been limited annually to "only" 40 percent of all IDA lending. Over the past five years, India, Pakistan, and Bangladesh have accounted for 53 percent of IDA commitments. Confronted with the prospect of IDA serving both China and India, the World Bank has chosen to usher India over to the hard loan window to do its future borrowing. New Delhi is resisting the switch, arguing that adverse economic conditions and its current debt load rule out incurring higher interest costs.

India is not the only borrower that the World Bank is asking to pay more for money. At the urging of the U.S. and other members, the Bank has become stricter about applying its eligibility criteria. More often than before, selected IDA recipients are being told to obtain a greater share of their loans from the IBRD and private credit markets, and some IBRD customers are being weaned from Bank borrowing altogether. India and others identified as candidates for bumping contend they cannot afford the higher costs. The continuing worldwide recession intensifies their anxiety. In the past, seven of the twenty-seven countries that shifted out of IDA borrowing subsequently talked their way back in when things got bad. The new sternness implies the Bank will be less flexible from now on, and the idea of giving up a place in the soft-loan queue is that much less appealing.

Meanwhile, the economic status of many IDA borrowers is deteriorating. Surveying the future of low-income countries, the World Bank's 1982 economic report concluded dismally that "the picture is mixed but generally bleak" and "their prospects are a matter of grave concern." If correct, this means Third World countries at the bottom of the economic scale will be coming to IDA more often and with greater urgency.

FINANCING IDA: THE AWFUL ARITHMETIC

As the demand for its funds grows, IDA's financial future is increasingly uncertain. The budget problems of the industrial powers translate into a new reluctance about foreign aid commitments, especially with higher IMF assessments ahead. Fiscal conservatives argue that holding down government spending will improve the international economic picture and therefore poor countries will derive benefits from austerity measures even if they do see a drop-off in direct aid.

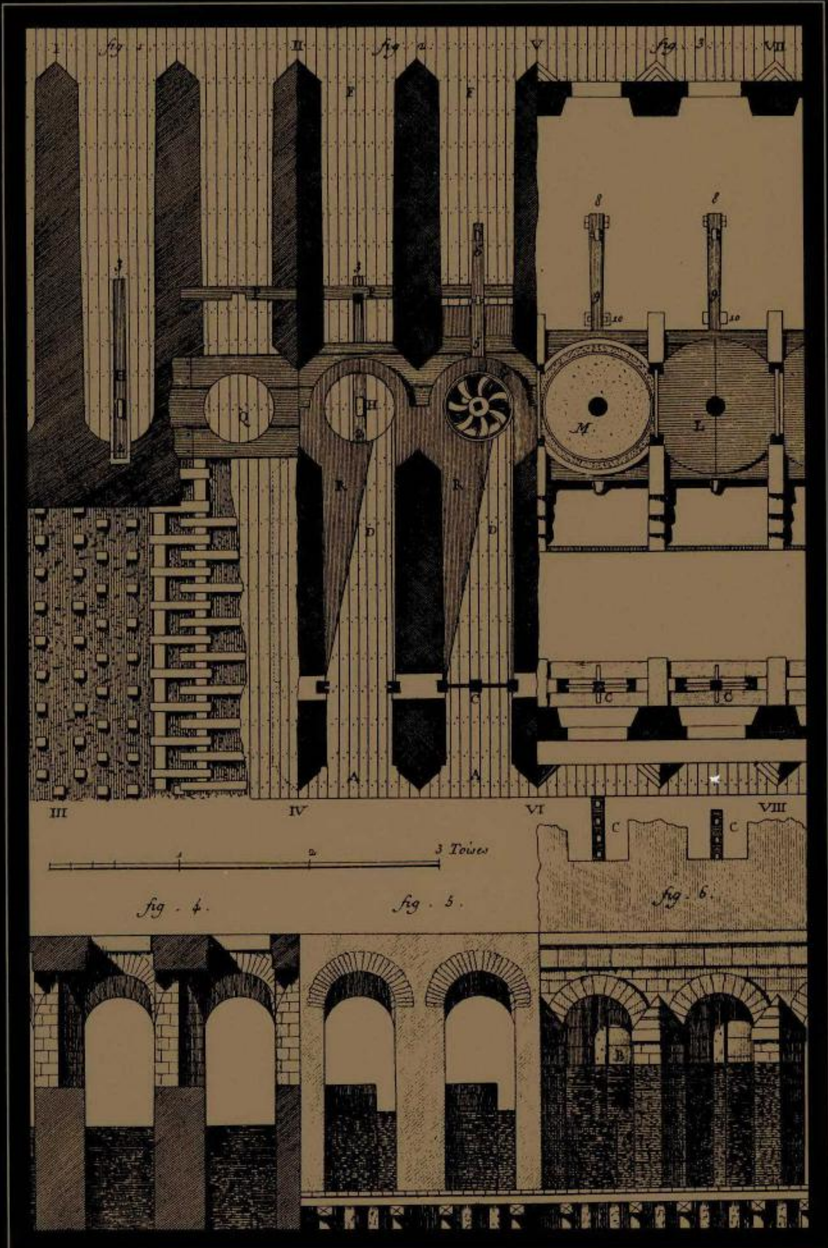
Unfortunately for the World Bank, these problems are worst in the U.S.—IDA's largest single donor. The U.S. Congress never has been enthusiastic about giving tax dollars to an independent institution to spend on no-interest loans abroad, though American companies do get some business from IDA recipients. Furthermore, supply-side Republicans are convinced that the World Bank's aid approach is flawed; they contend it promotes high taxation and heavy government spending at the expense of private enterprise and does not improve the lot of the average person. The Reagan administration has affirmed the U.S. commitment to the World Bank, but has given notice that financial support for soft-loan operations will decline. A 1982 Treasury Department report recommended decreases of 30 to 45 percent in real terms.

A short-term crisis is already here. IDA is currently operating on a US $12 billion budget for fiscal 1981-83 that was agreed to several years ago by the donor countries. At the beginning of the Reagan administration, the United States announced it would need an extra year to make good on its US $3.2 billion pledge. Other donors came up with an interim funding plan to tide IDA over during the 1984 fiscal year while the United States completes its tardy payments. Now there is new trouble on Capitol Hill. Unable to agree on 1983 budget totals, Congress has settled on a stopgap plan that includes reducing the next IDA installment below the amount the administration promised.

Meanwhile, the negotiations for the fiscal 1985-87 IDA budget are just beginning. The World Bank staff estimates a pool of US $15 billion is needed to maintain lending at present levels during the mid-decade years, but it would like to get US $16 to US $18 billion. The outlook for a replenishment on that scale is dim indeed. Given that the largest contributor is thinking about a one-third real reduction or more, just repeating the current US $12 billion total would be a triumph. And that assumes a means can be found to get the program from here to fiscal 1985, which is now uncertain thanks to the way things stand in Washington on the 1983 budget.

FACING THE FUTURE

Where does this leave the World Bank? Neither the staff nor any of the governments involved are yet writing off IDA. But firming up the program's future is a daunting task. As noted, the odds are low on maintaining or increasing current lending levels. Ideas are being floated concerning possible modifications that would make IDA resources go farther, such as introducing interest charges on an ability-to-pay basis or linking IDA lending more closely to participation by commercial lenders and investors. There is no con-



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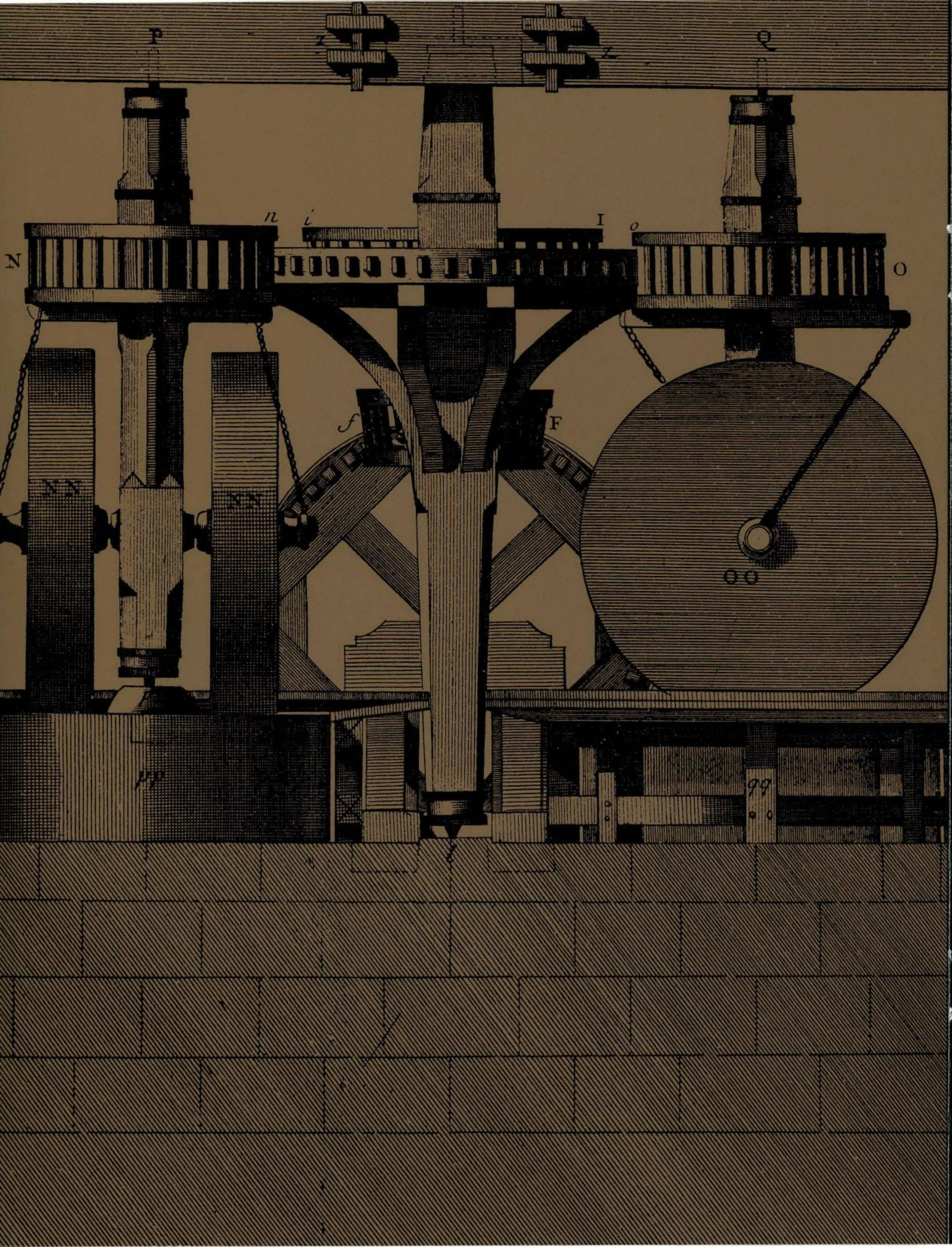

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sensus on these or other revisions, though, and in any case, developing nations are skeptical of innovations that would entail higher IDA charges or require them to turn to the recession-ridden private sector for additional aid. Moreover, they regard the IDA funding issue as a test of the developed nations' commitment to the Third World.

Only a fundamental policy switch towards economic stimulation by the major powers could materially alter IDA's financial picture. Some are reaching for such a change and advocate extra aid to poor nations as part of an overall effort to escape recession. But so long as controlling inflation remains the priority concern, governmental purse strings will be knotted.

An IDA crisis, therefore, looks unavoidable. We seem to be headed for one more illustration of the point that the world is more closely bound together than ever before but less able to agree on how to cope with problems generated by common economic distress. The question is whether through luck or ingenuity somebody will come up with a way to rally support for promoting economic development in the Third World, either within the IDA framework or otherwise.

IDA CUSTOMERS: 50 DEVELOPING NATIONS

AFRICA
Benin
Burundi
Central African Republic
Chad
Comoros
Djibouti
Equatorial Guinea
Ethiopia
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya*
Lesotho
Liberia*
Madagascar
Malawi*
Mali
Mauritania
Niger
Rwanda
Senegal*
Sierra Leone
Somalia
Sudan
Tanzania
Togo*
Uganda
Upper Volta
Zaire
Zambia*
Zimbabwe*

ASIA/PACIFIC
Bangladesh
Burma
China*
India*
Lao PDR
Maldives
Nepal
Pakistan*
Papua New Guinea*
Sri Lanka*
Solomon Islands
Western Samoa

MIDDLE EAST
Yemen Arab Republic
Yemen PDR

LATIN AMERICA/CARIBBEAN
Dominica
Guyana*
Haiti

*Receives blend of IBRD and IDA loans

BUILDING A BETTER GOVERNMENT

An Interview with the Honorable Hugh L. Carey, Governor of New York, 1975-1982, Conducted by David Moxley, Managing Partner, Touche Ross & Co. U.S.A.

David Moxley: Governor Carey, when you entered office in 1975, you inherited a state with deep economic and social problems. Speaking as a businessman, I imagine that as the first step you had to seek out capable people to form a management group who would help you begin to resolve those problems.

Governor Carey: Yes, Dave, the challenges facing the state were so serious that they had to be met quickly to ward off truly dangerous economic and social disruptions. People of exceptional qualifications and proven skills were needed in addition to the experienced state civil service already in place. They were to be a part of a critical restructuring and redirection of government, and I wanted them to be able to contribute to the state from the wealth of experience they had gained in the private sector.

David Moxley: What rewards could you promise high-level economists, bankers, academics, sociologists, lawyers, labor managers, and others accustomed to the efficiencies and economic rewards of the private sector?

Governor Carey: I said when recruiting these people, "You will have authority and you are going to be able to exercise decisive judgment. The responsibility is yours, too. You are going to see a lot and learn a lot that is new to you, and your decisions are going to touch the lives of many people. You are not going to get high exposure or income, but your experience will be absolutely unique and important. Then you can return to advancement in the world of private affairs whenever appropriate and opportune." By the way, many of these people are now holding high executive positions in business, universities, and the professions.

David Moxley: In effect, your recruiting efforts created a partnership between public and private interests. Since we hear almost daily of governments —federal, state, and local—seeking the same cooperation, I think your successes in this area will be remembered as one of the cardinal achievements of your administration.

Governor Carey: We made it an important part of our program to learn, even imitate, some of the very successful businesses we have right in our state. We learned from a well-run Kodak, from a productive and efficient IBM, from AT&T, from Grumman, and from many small- and medium-sized businesses. We talked with their executives and drew on their expertise to plan for the future of the state. We have learned to utilize the same positive but constructively critical spirit they show in dealing both with economic challenges and with the inefficiencies that arise in their enterprises. In fact, our experience led me to see the state government more and more in terms of a corporation with numerous subsidiaries, the most notable being New York City, of course.

David Moxley: I assume that means that there are other large subsidiaries, such as Yonkers and Buffalo, and that they place very different demands on management.

Governor Carey: As with all subsidiaries, they are in different conditions of economic viability. When the state played a paramount role in the restructuring of New York City's economy, it developed even closer cooperation and partnership with the major financial institutions and corporations within the city and state. These banks, insurance companies, accounting firms, labor organizations, and others gave advice and aid to solve the problems confronting our major subsidiary—help which in turn has been available to many of the cities and towns in our state.

David Moxley: Obviously, then, if you looked upon government as a corporation with subsidiaries, your next step was to determine a general management method or philosophy to help organize the responses of your administration.

Governor Carey: Yes, and from experience I learned that management by objective is the most effective way of facing and overcoming the tangled problems of the public sector. Once the objectives of an agency are clearly defined, then the shortcomings of its previous approach and the shortcomings of its functioning can be evaluated and improved in light of the desired objectives. By using this method we can determine why objectives are not being met. In our system we ask the Commissioners of each agency, working with the state's Office of Development Planning, to assist in defining their objectives with clear-cut policy goals, to manage their resources within budget constraints and limits, and to plan for future development keeping their objectives and resources always in mind.

David Moxley: You just mentioned planning for future development. It's often said that governments use only short-term planning—from election to election. How realistic is long-range planning given the inevitable changes in political life?

Governor Carey: Government must absolutely plan ahead as far as it can. You have to plan regardless of who is in office, or who is going to be there next. Government should never be caught with any major shocks or surprises that would confuse and mislead people and make them lose faith in the whole system. It must be prepared for everything from communication and energy breakdowns to floods, earthquakes, and, of course, to the possibility of nuclear errors.

When I became Governor, we operated first only on a five-year fiscal plan. This was necessary because we were in a rescue recovery mode. But before I left office, I had in place a ten-year plan for program development of agencies coupled with focused government spending.

A good example of bringing together the right people from the public/private sector to plan for the long-term is the work recently completed at my request by several panels of government experts and business executives. This New York Council on State Priorities undertook studies on five crucial issues facing the state: housing, public finance, dependent populations, economic growth and taxation, and human resources development. Their analyses and findings for management objectives and development planning are of the highest quality and represent the best that can occur when the public and private sectors join together. This sort of cooperation is necessary for a prosperous future for all citizens. I hope the findings of these panels will be helpful for the new administration and other interested parties.

David Moxley: As effective and useful as the concept of "government as corporation" has been, I can't help feeling it does leave something out. After all, we do look to the public sector to provide basic services.

Governor Carey: Yes, the economic concerns and problems of the state are, of course, larger than any corporation. We have an enormous transportation system and a vast communications network. We have our natural resources, such as water, hydroelectric power, land, minerals, all in varying degrees of abundance in a state which is relatively well-developed. We must maintain these, and constantly improve them for the economic benefit of individuals and industry. This is the natural wealth we inherited, and the infrastructure of the entire economy based upon it requires constant planning for development.

David Moxley: Beyond natural resources, Governor, we should also look to the state's human resources. For example, unemployment is a problem for the state in a way that it is not for a corporation.

Governor Carey: That's true. We have numbers of people with ability but no contribution to make because they are unemployed, not sufficiently educated, or facing a decline in jobs caused by automation, robotics, foreign competition, and inadequacy of capital. Education is the key to solving much of this problem, and we have invested funds and effort into upgrading our educational system. I include the independent universities, state and city universities, technical institutes and community colleges. They are seeking to instill higher proficiency at all educational levels to deal with the intricacies of high technology. From culinary arts to veterinary medicine, the range of education in New York is limitless. We have also used and funded the arts not only to enrich daily life but also to create jobs through increasing the numbers of tourists.

David Moxley: From all that you've said, Governor, and from my own involvement in certain state and city projects, I know New York State has come to serve as a prototype for other governments facing similar deep economic, social, and managerial problems. Today, you've described the manner in which you developed this model. First, you recruited the right people, and in so doing, formed a beneficial working alliance with the business community. Then, with your management team, you set objectives for the short- and long-term and managed by those objectives. Throughout the process, you dealt with the human resource issues, the service issues, the funding of the arts and other areas which tend to suffer attrition and inattention during difficult times. Certainly, this model of reasoned management and cooperation with the private sector is one which, I have no doubt, will be examined and emulated by many. Thank you very much.

PERSPECTIVES ON BANKING AND THE ECONOMY

DEALING WITH INFLATION

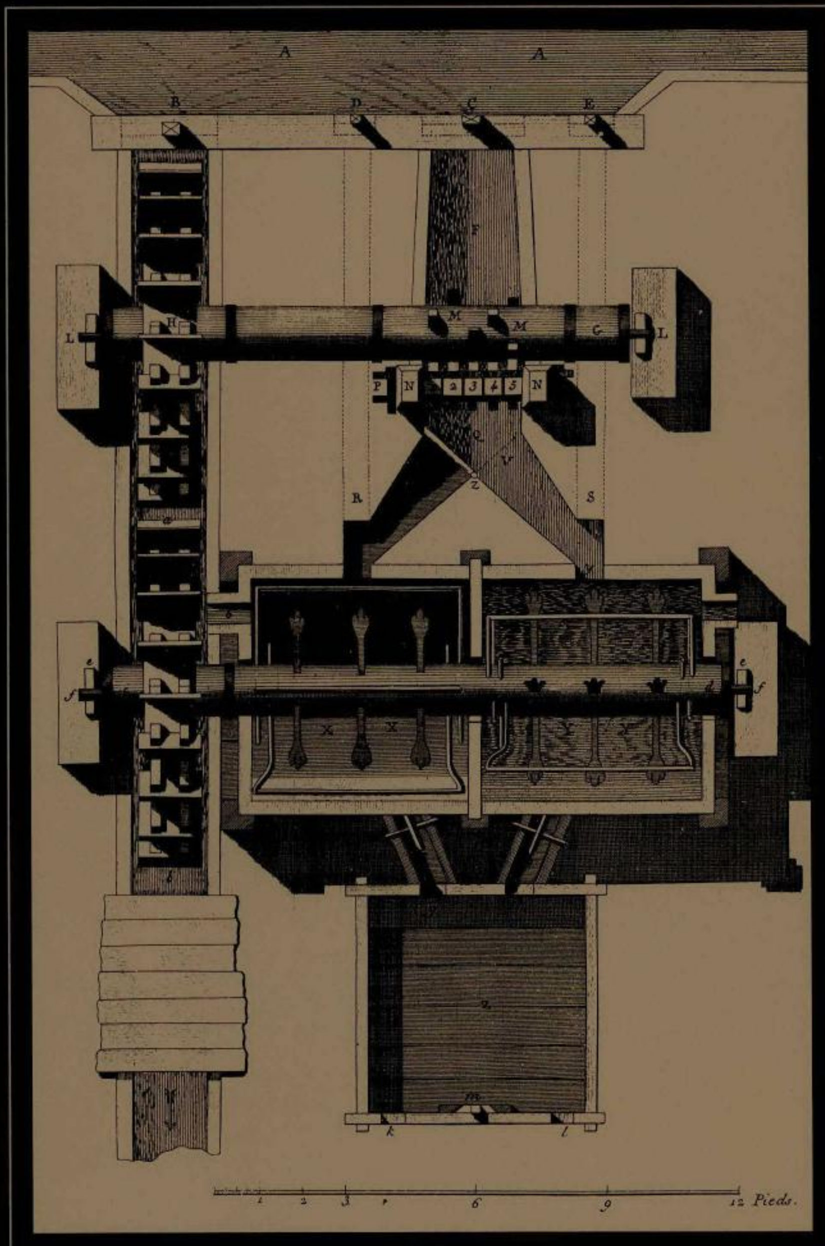
by Sir Geoffrey Howe, P.C., M.P.
Chancellor of the Exchequer

Inflation has been, and remains, one of the most intractable problems of our time, and perhaps the most damaging, economically and socially. It causes instability; it saps confidence, discourages initiative, innovation and risk-taking, and depresses consumption. It is sometimes argued that the policies of the British government to control inflation have only made the problem of the "real" economy worse and contributed to rising unemployment. And it is argued that a trade-off exists between lower inflation, on the one hand, and higher unemployment, on the other hand. History argues against the existence of such a trade-off. In the U.K. and many other countries, the rise in inflation during the late 1960s and much of the 1970s went hand in hand with slower economic growth and rising unemployment. The need to reduce inflation is not the end of the story. Policies are also needed—and have been implemented in the U.K.—to promote better incentives, to encourage new business and enterprise, to allow greater freedom of markets and to break down some of the great monoliths of monopoly power. No government can deliver a more healthy, competitive and enterprising economy by itself. A thriving economy ultimately depends on the efforts of industry to face up squarely to international competition by cutting costs, raising productivity and seeking opportunities in new and expanding markets.

What the government *can* do is to set the necessary framework to encourage sustainable economic growth. In Britain, the central, and essential, element in this framework is the Medium Term Financial Strategy (MTFS), first spelt out in 1980. The MTFS consists essentially of two elements—policies for maintaining firm, though flexible, monetary conditions consistent with bringing about a further reduction in inflation; and a complementary set of fiscal policies—relating to public expenditure, taxation and public sector borrowing—that leave room for a fall in interest rates within the overall financial discipline needed to reduce inflation. While the monetary targets have been adjusted from year to year as have the projections for public borrowing, the overall direction of the MTFS has been maintained, and so too has the consistency of policy.

Britain is not alone in implementing policies to create a firm, stable and consistent financial framework. The last three years or so have witnessed a remarkable change in the economic policies adopted by most governments in the industrial economies. Whereas after the first oil price shock in late 1973 many governments were disposed to print and float their way out of trouble, since the second price rise in 1979, the emphasis of policy has been counter-inflationary. With hindsight it became clear that the accommodating monetary and fiscal policies adopted immediately after the first oil shock only served to postpone the necessary adjustments and to provoke inflationary tendencies which led the U.K., and the world economy, generally, to experience inflation rates at record levels. During the 1973 to 1980 period the average level of inflation in the major industrial economies was 10 percent a year compared to only 2.5 percent in the 1960s. And at the same time, output growth in these countries fell to only one-half of that experienced in the seven years leading up to 1973. Unemployment moved steadily up.

The U.K. had experienced a much worse inflation performance year by year since 1972 when compared to the average of its major competitors. Inflation in the U.K. rose from 7 percent in 1972 to around 16



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percent in 1974 compared to an average for major Organization for Economic Cooperation and Development (OECD) countries of 13 percent. But the U.K. inflation rate continued rising, reaching over 24 percent in 1975 while elsewhere inflation either fell or remained constant. Largely as a result of this experience, inflationary expectations became much more deeply entrenched in the U.K. than in other major countries. In addition, output and productivity in the U.K. has grown much more slowly than in the rest of the OECD, and slower growth naturally makes adjustment that much more difficult to manage.

Though the previous Labour Government succeeded—for a time, and under sanction of the International Monetary Fund—in conducting policies to subdue inflationary pressures, the weakening in financial resolve towards the end of their period in office, and the breakdown of their incomes policy, combined with the second oil price shock, led to a further bout of price increases, with inflation again reaching above 20 percent in spring, 1980.

There are now clear indications that perseverance with firm monetary and fiscal policies has begun to bear fruit, not only in the U.K. but globally, in terms both of lower inflation and lower interest rates. In particular, considerable success has been achieved in bringing down inflation which for the major countries is now running at a rate of only about one-half the 12 percent rate in 1980. Our inflation rate fell to about 6 percent by the end of 1982. And we expect a resumption of modest economic growth, with GDP growing by around 1.5 percent in 1983, broadly in line with the expected average for OECD countries.

Looking further ahead, how will success and firmness on the monetary and fiscal fronts translate themselves into growth and output, not only here but worldwide? The answer is through greater stability, greater predictability, greater confidence, a better balance in the economy, less rigidity, less monopoly, and a healthier and more effective working of the market system. The signs of a successful transition towards sustainable noninflationary growth will be more stable money prices and costs, lower interest rates, a more secure return on investment, and a revival of consumption based on improved confidence. Of course we would all like to see more growth, more quickly, and more evenly spread. But we must never forget that growth based on a rush for hedges against inflation, borrowing in the hope of expropriating the lender, and buying to beat the next price rise is not sustainable growth.

This process is part of the necessarily painful transition to a world of low inflation. Those who believe that inflation can be reduced quickly and at little cost in terms of lost output have not been able to establish a credible position. The high rates of inflation in the 1970s, the lax policies which delayed the necessary adjustment and structural rigidities in both labour and product markets have all contributed to the depth and protracted nature of the transition to lower inflation. The solution, which is bound to take time, can only be found along the lines to which we are committed.

THREE JAPANESE VIEWS

PLANT-AND-EQUIPMENT INVESTMENT: THE KEY TO COMBATING INFLATION

by Kaneo Nakamura
Deputy President
The Industrial Bank of Japan, Ltd.

In the United States, economic policy is geared to the idea of small government and tight money, these two being the key concepts in the federal endeavor to wring out inflation from the economic constitution of the nation, though the economy is now afflicted with a protracted phase of stagnation. By wringing out the persistent inflation, this policy aims first at reducing uncertainties over the future prospects of the economy and increasing the saving propensity of the people, and has the ultimate aim of attaining higher productivity through reinvigorated investment.

It is my firm belief that it is possible to combat inflation and foster sustained growth in a national economy if productivity is raised and that higher productivity can be achieved by increases in plant-and-equipment investment. The current U.S. policy, I think, is fundamentally correct, though as a short-term proposition I entertain some doubts in regard to its apparently excessive preoccupation with short-term money-supply indices.

Prices in Japan have been stable for a couple of years. For the month of August 1982, for example, the year-to-year increase in consumer prices was only 3.1 percent and that in wholesale prices 1.0 percent. It can be said, therefore, that Japan has almost overcome the inflationary effects of the second oil crisis. These favorable results are attributable to an appropriate monetary policy, and the largely amicable labor relations which have kept wage increases within the bounds of the increase in productivity.

In a more basic sense, however, it was the entrepreneurial determination to invest in energy-conservation devices that kept the price markup to the minimum in spite of the higher energy costs.

Also in the future, success in the effort to prevent inflation will hinge on entrepreneurial determination to continue to renovate productive processes and increase productivity through increased research and development activities. It is necessary, therefore, to encourage enterprises to increase their investment in plant and equipment.

It should be noted that in Japan the high level of plant-and-equipment investment has been sustained by the stable supply of long-term financing through the financial system. It is my contention, therefore, that this financial system should be maintained in order to encourage investment and avoid inflation. In this connection, I would like to discuss what is required of the Japanese financial system in order to maintain a reasonably high level of plant-and-equipment investment.

First, the level of interest rates must be maintained as stable as possible. In the United States, some wild gyrations of interest rates have been witnessed in recent years, and these movements have had nothing to do with actual business conditions. In Japan, too, the domestic rates of interest have been affected in recent years by overseas rates owing to the brisk monetary in- and out-flows. There is an increasing danger of interest rate gyrations unrelated to profit margins. It is necessary, however, to stabilize interest rates at a level attuned to the state of economic activities if the economy is to be strengthened with investment going on briskly. As a matter of fact, this is a task that cannot be met by Japan alone. Major countries of the world should work together to stabilize the level of interest rates by coordinating fiscal policy and foreign exchange policy and taking other necessary measures.

Secondly, it is of utmost importance to eliminate fiscal deficits and reduce the amount of public debt issues. Japan's public debt is larger than that of most other countries in terms of the ratio of balance of outstanding government bonds to nominal GNP. Deficit financing is thus one of the major causes of the rise in long-term interest rates. Both the revenue and expenditure sides of public finance ought to be re-examined before we can hope for the attainment of a smoother and more ample flow of funds to industries.

All of us are aware that the world economy is at a turning point, and at such a juncture as this all the countries in the world must go back to the basics in order to discover the right track of progress. It is in this sense that I stress the greater responsibility of the financial system in securing the availability of funds for plant-and-equipment investment.

INFLATION IN JAPAN

by Yusuke Kashiwagi
Chairman of the Board of Directors
The Bank of Tokyo, Ltd.

RECENT EXPERIENCE

Just before the first oil shock in 1973 to 1974, inflationary expectations were already high in Japan because the money supply was excessively large and government expenditures had expanded to finance the so-called "Japanese archipelago remodeling plans." In the middle of this situation, the oil shock hit and self-amplifying "me too" price hikes kicked up overall domestic price levels. Wages then followed suit with large-scale increases, which pushed up prices further in spite of the government's tight money policy.

However, the situation just before the second oil shock in 1979 to 1980 was quite different. The money supply had stabilized, price movements were calm, and inflationary expectations were limited. During the second crisis, oil price hikes pushed up import prices and weakened the yen exchange position. In response, the government raised the official discount rates and tightened "window guidance" with respect to bank lending. In addition, government finance was restricted. Moreover, wage earners were tolerant of relatively moderate wage increases, thanks to the bitter lesson they learned from their experience in the first oil shock. Thus, during the second oil shock the Japanese economy successfully warded off a sudden increase in domestic price levels.

CURRENT SITUATION

Potential causes of inflation include: a tightening of international commodity markets for products like crude oil, increased demand for exports which tightens the domestic demand-supply position, and a rise in overseas interest rate levels or disturbances in international relations which cause weakness in the exchange position of the yen. Currently, the demand-supply position of international commodities is stable due to prolonged worldwide economic sluggishness. The demand for exports is also stagnant. Therefore, import and export price rises are not a serious problem.

The only worrisome external inflationary factor is a weak yen exchange position. High U.S. interest rate levels weakened the yen by causing capital outflows in Japan, and the psychological demand for the U.S. dollar as the strongest currency in times of political tension further eroded the yen's position in the international exchange markets.

IMMEDIATE FUTURE

No inflationary tendency is apparent in Japan. It is true that at the time of continuing weakness of the exchange position of the yen in 1982, imports were costing more and more, but the effects of import price increases had so far been absorbed by enterprises (in the form of reduced profit margins) and had not passed along to consumers. Businesses had been obliged to do this because the market conditions for imported raw materials and foodstuffs were dull and domestic demand was inactive.

The most serious concern for the future is the possibility of fiscal inflation due to deficit spending by the government. Fiscal deficits are considered to be the biggest problem of Japan's economy today. Two major countermeasures against this problem are increased taxation and curtailment of treasury disbursements. Immediate endeavours are being directed at the latter, and administrative reform is underway. Nonetheless, if reductions in government spending do not go smoothly and tax revenue shortfalls continue because of sluggish business conditions, more deficit financing bonds may have to be floated. If the volume of flotation exceeds the market capacity, then underwriting by the Bank of Japan may take place. The resulting increase in the money supply may lead to inflation.

To combat fiscal inflation, the Bank of Japan's underwriting should be avoided. At present, though, no precautionary anti-inflation measure in the form of tight money policy is necessary, since no inflationary trends can be seen.

However, the private sector's demand for funds is currently inactive in spite of quantitatively easy market conditions, and no inflationary tendency is apparent thus far. Under such circumstances, the most effective way for banks as a group to prevent inflation is to strengthen the guard against the occurrence of fiscal inflation. Banks can do this by increasing the savings of the people and by helping the market absorb government bonds so that the Bank of Japan's credit will not be needed. Private financial institutions should fully cooperate in fiscal deficit financing by forming syndicates and underwriting government bonds.

OUTLOOK

During the next five years, a 3 percent level of slow but stable economic growth is forecast in Japan. Therefore, few inflationary factors are foreseeable in the domestic demand-supply situation. Because of the satisfactory employer-employee relationship, wages will not exert significant pressure. With a slow-growth economy, no improvement is likely in business profits and labor productivity.

As for the foreign outlook, we cannot expect that the world economy will regain a rapid growth pattern. Therefore, no tight position is anticipated in the demand and supply of imported raw materials. Thus, the only external inflationary factor is the yen exchange position and instability in international economic and political conditions.

If there are no major international incidents and if our country's economy is managed without gross mistakes, there would seem to be no possibility of a recurrence of inflation in Japan within the next five years.

SOME THOUGHTS ON INFLATION

by Toshio Nakamura
Chairman of the Board
The Mitsubishi Bank Ltd.

Stabilization of prices is an indispensable precondition for sound economic growth. Yet, on no account is the attainment of price stability, or inflation control, an easy matter for the present economies of the leading industrialized nations.

During the first twenty years after the Second World War, these countries set forth positive fiscal and financial policies aimed at full employment, creation of a welfare state, and the achievement of striking economic growth. The era of the "Golden Sixties" was the result of these policies.

Unfortunately, these efforts to pursue full employment and construct a welfare state have built into Western economies well-nigh irremovable cost-push pressures. These pressures are fueled by continuous wage increases and the easy expansion of national finances.

As a consequence, since 1970 the governments of developed Western nations have been struggling to eliminate their greatest common problem—cost-push pressures. The fact is that none of them has yet been able to find effective policies to that end. Income policies have been introduced in several different Western nations without producing any satisfactory results.

A compulsory freeze on wages is often recommended as a quick method to bring the vicious wage and price cycle under control. It is only a temporary measure, however. When the freeze is lifted, wages and prices may soar even higher than they were before the freeze. Also, if the freeze extends over a long period of time, it has grave negative effects on the entire economy.

In the final analysis, the most effective way to cope with the current inflation is for the three main sectors of the economy—government, business *and* labor—to cooperate with one another and commensurately share the burden. The solution cannot be left to the administrative authorities to handle alone.

First of all, it seems essential that the government further examine its spending structure (including a review of welfare policies), simplify administrative procedures, and improve operational efficiency. The fact that not only Japan but also the Western nations are grappling with the problem of reducing budgetary deficits is a big step in this direction.

The business sector must make even greater efforts to raise the level of productivity. Meanwhile, in the labor sector, wage hikes that are much higher than productivity gains must be restrained. Of course, these measures are not easily put into effect in a short span of time. In the process each sector will inevitably suffer some pain. Nevertheless, these efforts ought to begin immediately, because control of inflation is very important to the economy.

As a banker, I am convinced that the way to help restrict inflation is to cooperate with the central bank in the accomplishment of financial policies that ensure continuous stability in the value of money. It is also important for banks to make the best possible use of their fund allocation function while maintaining sound banking practices. Money should be supplied for growth to fields that truly need money in order to heighten the efficiency of the economy.

INFLATION IN BRAZIL

by Eduardo de Magalhães Pinto
President of the Board and
CEO, Banco Nacional S.A.

THE INFLATIONARY SPIRAL

Inflation has become a routine phenomenon in Brazil. In recent decades it has also become commonplace in a number of Latin American countries, where some of the highest inflation rates in the world have been registered.

Formerly, these high rates of inflation in Latin America contrasted sharply with very low rates experienced in the industrialized nations of the world. The two petroleum crises, however, made inflation a universal affliction. The average annual inflation rate in industrialized countries rose from 4 percent during the period 1962 to 1972 to 11 percent in 1974 to 1975 and levelled off at 8.5 percent in 1980 to 1982. In some instances, alarming double-digit rates of inflation have persisted. The United States, England, France and Italy are just a few examples of industrialized countries with more serious inflation.

Brazil's inflation problem, however, is unique. At the end of the 1950s and the beginning of the 1960s, we witnessed in this country a strong escalation in the general level of prices. In 1963 to 1964, Brazil's inflation rate was very near 100 percent. A vigorous governmental effort was then undertaken to combat the inflationary spiral. As a result, the annual rate of inflation began to decline, particularly after 1967. The general level of prices registered an annual increase of only 15 percent in 1973.

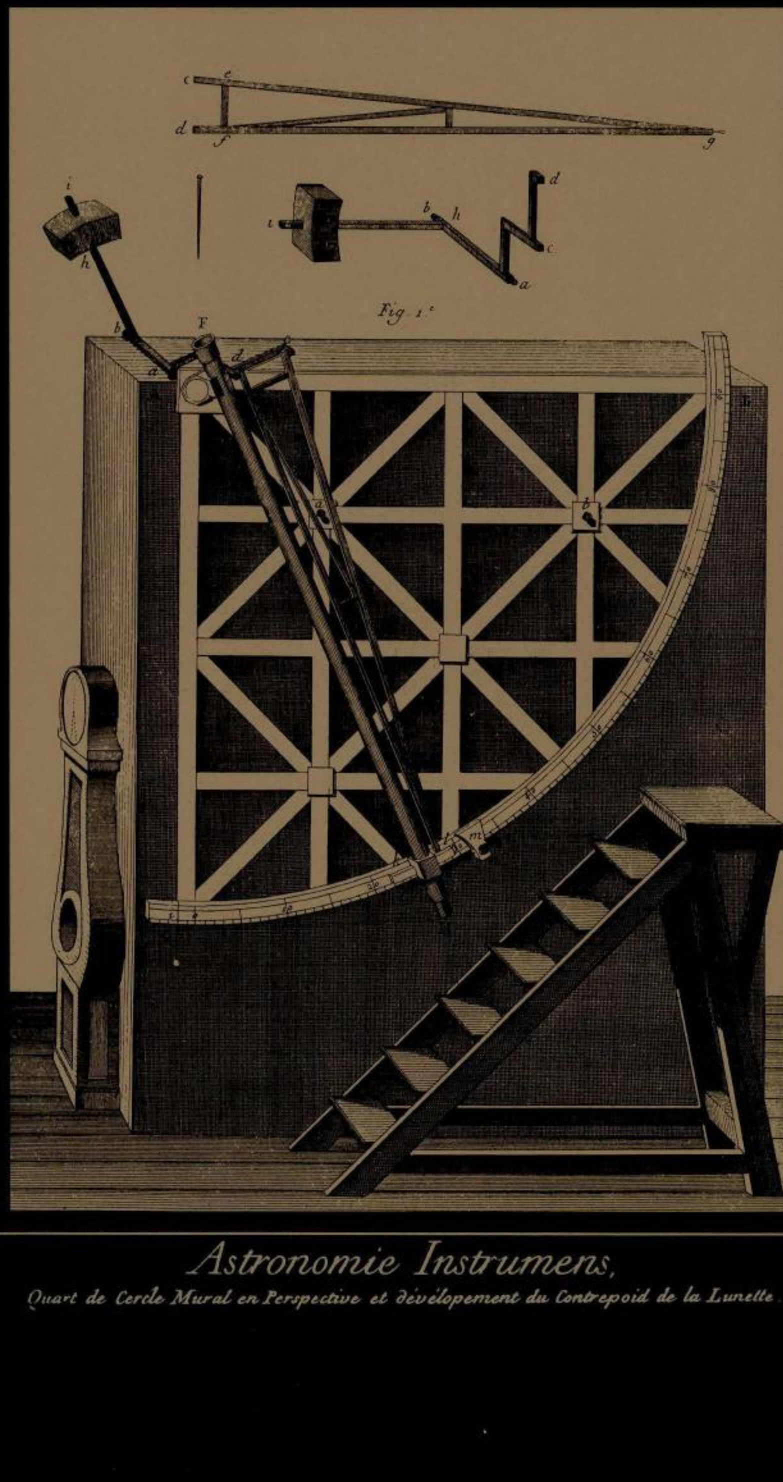
In 1974, however, both internal and external events set back the Brazilian economy, and once again the general price index turned sharply upward, doubling the level of the previous year. From 1974 to the present day, inflationary pressures have grown steadily stronger, and the problem in Brazil is now as as bad as it was at the beginning of the 1960s. The 1979 rate of inflation was 77 percent. In 1980, it was 110 percent. And in 1981, the rate was 95 percent. These rates exceeded the highest rates registered during those years in all other Latin American countries, except for Argentina and Bolivia in some years.

Observers in the more industrialized nations of the world often cite the persistently high rates of inflation experienced by Latin American countries as proof of defective economic policies, poor administrative capacity, naiveté in economic matters, or ineffective political and entrepreneurial leadership. There are no such easy answers. Brazil's inflation problem is a case in point. High and persistent rates of inflation here stem from a complex of factors. Many causes are internally generated but many others arise from external events over which Brazil has no control.

INTERNAL CAUSES

In recent decades, one of the primary internal causes of inflation in Brazil, as I see it, has been the rapid urbanization of the population combined with high birth rates. Brazil has experienced serious problems in supplying food, public services, and in fact goods and services of all types to this enlarging and increasingly mobile population. On the one hand, the greater demand for goods and services and the movement of people to cities have strongly stimulated economic activity. On the other hand, the rapidity of this major change in the size and location of the population often has caused imbalances in the short and medium term. The nation's ability to import, produce, transport and adequately store goods has not always kept up with the sharp increase in demand in all production sectors. The results have been instances of scarcity, cost increases, and opportunities for speculation, which translate into a general increase in prices.

Exacerbating these already difficult conditions in recent years have been production failures in the primary sector. These production failures have substantially affected the supply of foodstuffs and raw materials available for both internal consumption and



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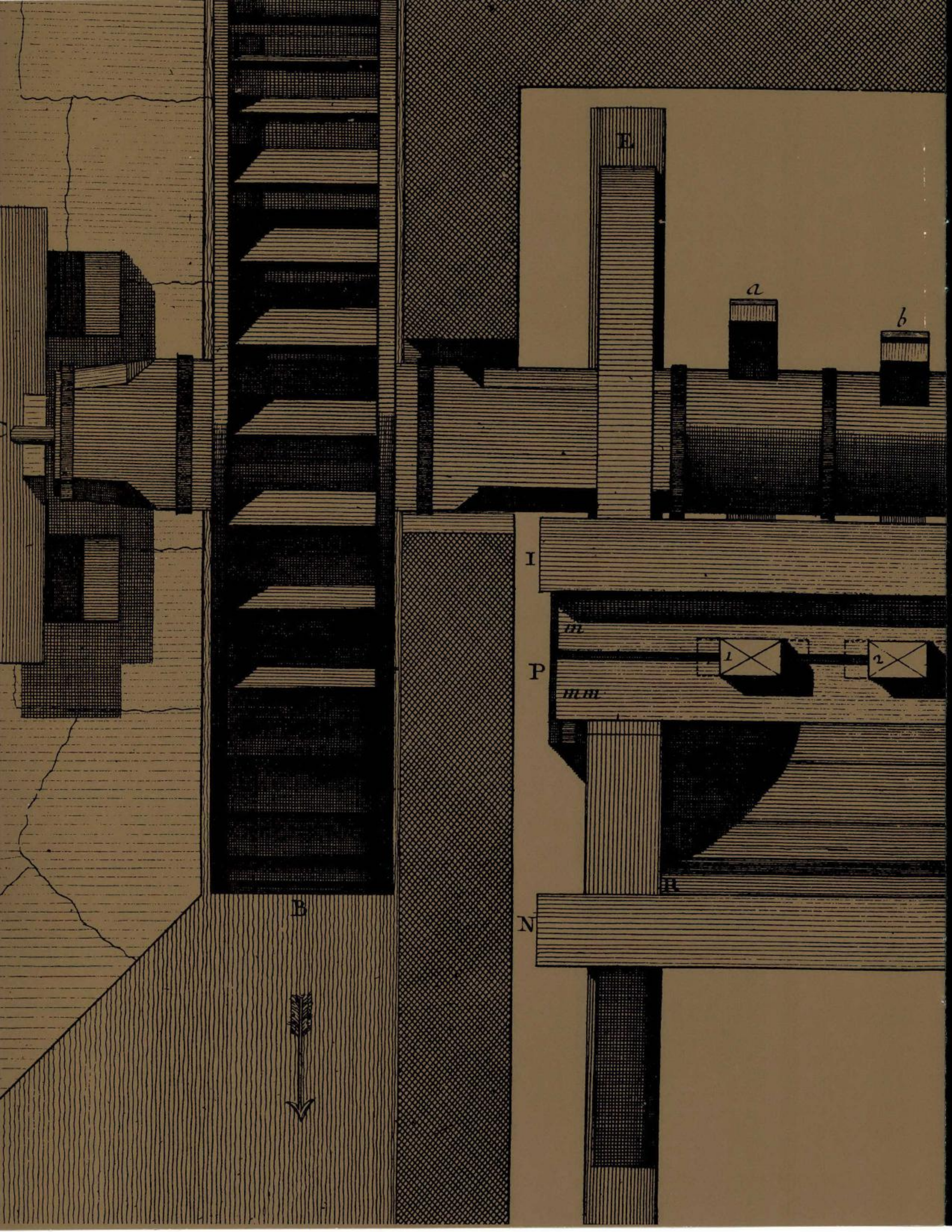
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exports. The most striking examples are the successive Brazilian crop failures in 1979 and 1980.

Governmental policy in Brazil has not always been wise, either. Like many countries around the world, Brazil pursues a fiscal policy of unbalanced public sector accounts, with inflationary financing of the deficit. Also contributing to inflation are the import restrictions the government has imposed in an effort to preserve the local market for national industry and to alleviate balance-of-payments difficulties. Many of these restrictions have arisen over the past eight or nine years as a result of the substantial increase in the price of crude petroleum and its derivatives. Oil and oil products have accounted for 40 percent of total Brazilian imports in recent years. (For Latin American countries as a whole, this proportion was 18 percent in 1974 and 27 percent in 1980.) As a result, imports of consumer, intermediate and capital goods have been squeezed out, scarcities have occurred, and these scarcities have been translated into a rise in the general price level.

Another important internal cause of inflation in Brazil has been the excessive amount of investment devoted to projects of long-term maturation, particularly in the public sector. An anxiousness to do many things at once has been stimulated by the almost unprecedented availability of external financing. In certain cases, one can even dispute the choice of particular projects on a cost-benefit basis. Many have done little to help Brazil's balance-of-payments difficulties, to supply needed goods and services, to create higher income and employment levels, or to distribute income more evenly. The pressure produced by these huge long-term investments inevitably provokes an increase in the overall demand for goods and services, leading to a general rise in prices.

EXTERNAL CAUSES

We have witnessed over the last ten years certain economic events which have caused great harm not only to Brazil's economy but also to those of the vast majority of the world's nations. In this category are the two petroleum shocks, the incidence of high international interest rates, and a severe recession in the more industrialized nations.

The petroleum shocks—the first in October, 1973, and the second in more recent years (1979 to 1981)—brought us high rates of inflation and grave balance-of-payments instabilities. Largely because of a strong growth in our annual export volume, Brazil was able to recover from the first shock over a period of four years.

The second shock occurred during a time when Brazil was particularly vulnerable to external events because of a string of crop failures, large public sector expenditures, and a growing external debt. Inflationary pressures were thus reinforced, with serious consequences for the general price index. It is worth noting, meanwhile, as a positive factor, the continued rise in exports during this period which produced an important trade balance of US $1.2 billion in 1981.

The shock of high and volatile international interest rates in recent years has introduced a new external factor with an acutely negative impact on the Brazilian economy. These high interest rates restrict the country's development and act as another long-term source of inflation by slowing the pace of investment. Without these necessary investments, a country with a growing population suffers economic bottlenecks.

The prolonged recession in the more industrialized countries that followed the second petroleum shock was accompanied in some countries by still higher inflation levels. This recession has helped to refuel inflation in Brazil by restricting foreign trade. As international market demand contracted, prices of exports fell, with serious effects on those countries heavily dependent on the export of one or two primary products. Although Brazil is not one of these countries, our capacity to export was nevertheless reduced just at a time when export expansion was most necessary to meet the heavy burdens imposed by large external debts, the cost of petroleum imports, and demographic pressures. Other negative effects of the decline in the value of exports are well known: a reduction in corporate and governmental income, budget deficits, a decline in the terms of trade, and a greater probability of increased deficits in the current account.

THE OUTLOOK

The Brazilian economy, although bearing characteristics quite different from the rest of the developing economies, has not and could not have escaped the negative effects of the petroleum shocks, high international interest rates, and "stagflation" in the world at large. In addition, these negative effects were probably magnified in Brazil's case by the size of our economy, large long-term investment expenditures, and successive declines in agricultural output. The worldwide recession that began in 1981 has not been accompanied in Brazil as it has in many other countries with a substantial reduction in the rate of inflation. Inflation in Brazil still hovers in the 100 percent range.

It is widely recognized by Brazilians that it is absolutely essential to reduce drastically the present inflation rate. The government has now begun to adopt more coherent policies aimed at reining in inflation. Greater efforts are being made to reduce public expenditures, stimulate agricultural and ranching activities, cut back petroleum imports, explore alternate energy sources within the country, and direct new foreign trade initiatives to countries of the so-called Third World. If Brazil can make these necessary adjustments in its economy during the recession in the more industrialized nations, then it will be on much firmer ground when recovery comes.

INFLATIONARY TRENDS IN THE NIGERIAN ECONOMY, 1973-1979

by Chief S. O. Asabia, OFR
Managing Director and CEO
First Bank of Nigeria Limited

BACKGROUND

During the six-year period from 1973 to 1979, the Nigerian economy was affected by a persistent inflationary cycle. The rest of the world's developing countries and most Western economies shared in this common experience. Economists emphasize that inflation results from streams of causalities that are very difficult to classify and analyze. Also, the causes of inflation in various countries during this period differed somewhat. Nevertheless, it is possible to point out some of the major inflationary trends taking place in Nigeria during 1973 to 1979.

STATISTICAL PATTERNS

A review of the statistical data from this period reveals certain patterns. For the period under review, the inflation rate averaged 18 percent, peaking in 1975 at 33.5 percent and dropping gradually during successive years until it was 11.8 percent in 1979. After 1979, government policy measures succeeded in easing inflationary pressures considerably.

During this same period, the money supply increased at an average annual rate of 35.6 percent. It, too, peaked in 1975—rising by 73.5 percent. This 1975 increase was caused mainly by the rapid monetization of oil receipts and an increase in wages when public and private sector debts were paid off.

Public sector expenditures grew rapidly during the period from 1973 to 1979 in both current and capital accounts. A budgetary deficit totalling ₦3,945 million was financed during this period mostly by the banking system, the nonbank public and external creditors.

The average annual increase in agricultural production during this period was 10.5 percent. Although the petroleum sector was booming, both federal and state governments continued to attach great importance to rapid development of the agricultural sector under the "green revolution" program.

The annual average value of imports for the period was ₦5,340.68 million, with consumer goods accounting for 30 percent of the total and capital goods and raw materials accounting for 69.6 percent. Again, Nigeria recorded a peak increase in 1978, when imports rose to ₦8,132 million. The bills rose steadily up to 1978 and declined to ₦6,165 million in 1979. From 1979, the increase in imports leveled off in response to restrictive import measures enacted by the government to combat an adverse balance of payments.

INCREASED DEMAND

The inflationary trend in Nigeria during this period was caused basically by inflated demand for goods and services and unresponsive supply. The fourfold increase in oil prices during 1973 to 1974 and the further oil price increase in 1979 led to a major expansion in the country's money supply, which in turn put pressure on our demand for domestic and imported goods.

Meanwhile, the price of imported goods rose as industrialized countries passed back the increased cost of oil in the form of more costly finished goods. In fact, in Nigeria the increase in import bills was even greater than the increase in the price of oil because of the *transfer-price mechanism* commonly used by multinational companies. The transfer mechanism is a practice whereby the invoiced prices of imported goods are further loaded with additional profit margin.

ROLE OF THE PUBLIC SECTOR

Unusually large demand pressures were generated during 1975 and 1976 when substantial resources were devoted to the building of port and road facilities in an attempt to improve the country's distribution network. Throughout the period 1973 to 1979, the government pursued liberal social policies which contributed further to inflation. For instance, the government attempted to distribute national income more evenly by increasing the level of transfer payments to state and local authorities for education and welfare services of various kinds. Unfortunately, none of these activities contributed directly or significantly to national productivity in the short term.

Other governmental social policies that heightened inflationary pressures during this period were: increases in the administrative burden resulting from creation of the states, the attempt to achieve regional dispersal of industries, an energy policy that placed a cheap uniform domestic price on petroleum markets, and employment policies imposing the concept of *federal character* on industries and public administration. According to the 1979 Nigerian Constitution, employees of major national industries are to be drawn from as many of Nigeria's nineteen states as possible so as to achieve a fair spread of jobs.

In implementing these policies, the government pushed market principles into the background. Although several of these social measures are desirable for democratic reasons, the failure to recognize the limits of resource availability means in the end that inflation does the reconciliation for us.

Public sector activities have a profound effect on the Nigerian economy because the public sector accounts for such a large proportion of total economic activity in this country—65 percent. The rate of inflation can only be controlled by curbing the demand for public sector services. Historically, this demand has been very difficult to manage.

WAGE AND INCOME POLICY

In 1977, the government took a standard approach to the control of inflation. It imposed a wage and income policy that is supposed to be in force today. Evasion of these controls is a common occurrence, however, and even where compliance does exist, inflation has not been slowed by this policy. Consumers argue that prices are higher than they would have been without the controls, and producers maintain that prices are so low they cannot meet overhead costs and may be forced to close.

EXCHANGE RATE POLICY

Recent evidence presented in a study by Professor O. Aboyade indicated that the Naira may be overvalued in relation to a number of major currencies. This appreciation of the Naira cheapens imports and further depresses domestic output of agricultural and industrial goods. However, the exchange rate policy is probably not a crucial factor because Nigerian industry depends so heavily on petroleum earnings, which constitute 90 percent of our foreign exchange earnings. Furthermore, Nigeria's ambitious development program during the past 10 years has put tremendous demand pressure on imports and encouraged outrageously high prices.

RECOMMENDATIONS

In my view, the government should continue to rely on the use of fiscal and monetary policy to manage the economy. On the whole, inflation experience in Nigeria during the period 1973 to 1979 has been a problem of swollen consumption fed by a rapid acceleration of the money supply. Exchange rate manipulation does not seem to be an appropriate remedy. I think the solutions are: reduced government spending, market-oriented interest rates, and the allocation of more resources to productive activities. These remedies should be pursued even though they may carry with them the implication of slower economic growth.

INFLATION

by Rowland C. Frazee
Chief Executive Officer
The Royal Bank of Canada

There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose....

John Maynard Keynes

It is not often that one accepts a challenge after being warned by no less an expert than Lord Keynes himself that the chances of success are less than one in a million. On the other hand, such long odds also suggest that I have little to lose—my chances of coming to grips with the inflation process seemingly being as good as any other contributor to this Ninth Report, including those trained in the "abysmal art" of economics.

Common sense dictates that before you can control or cure any disease, you have to correctly diagnose the nature and extent of the illness. Though this may sound trite, it is my belief that one of the main reasons for our inability to cure the social malady of inflation has been our continual failure to distinguish between increases in the *relative* price of a particular commodity and *general* increases in all prices. Though it is obviously difficult in the "real world" to distinguish between different price increases, it is still important, in my view, to remember that the distinction exists. The reasons are twofold: First, the causes of each are different. Relative price increases are caused by the interplay of supply and demand forces. General price inflation is the result of a man made, political decision, allowing the money supply to increase at a faster rate than real economic growth. Different causes suggest different solutions. Second, relative price shifts serve a purpose in the efficient allocation of resources. In fact, it is the *controlling* of such price signals which distorts an economy. On the other hand, general price inflation, if left *uncontrolled*, substantially distorts the economy, impairs investment, and leads to a misallocation of resources. It is also highly inequitable—the "unfairest tax of all." And it is highly disruptive socially because of the gut sense of unfairness it creates among the public—a widespread feeling that those who believe in hard work, saving, merit and faith in the future are being exploited by those who rely on speculation, borrowing, luck, and cynicism about the present.

Like all man made problems, general price inflation *can* be controlled by man. However, like all political problems, the more important question is whether it *will* be controlled. Clearly, the answer depends on the willingness of voters in the industrial democracies to support noninflationary policies. All one can do is suggest policies which would best control price inflation, and hope that political pressures do not become so great that politicians succumb to the temptation to inflate the money supply.

What can be done to limit inflationary pressures? I think five political pressure points can be identified. First, it is clear that the outlook for global inflation depends to a great extent on the macroeconomic policies of the United States. Though the United States may have lost some economic power relative to its dominant position in the immediate post World War II years, it is still the world's leading economy, and the American dollar remains the world's key currency. American policymakers must, and I believe do, recognize their central role in the global economy and the critical need to maintain confidence in the American dollar as a storehouse of value. Thankfully, the courageous monetary policy of the Federal Reserve Board, by reversing the flight from paper money in general and the U.S. dollar in particular, has laid the foundation for a sustained noninflationary period of growth. Building on this foundation will require monetary authorities in the United States and elsewhere to continue to maintain a reasonable relationship between monetary and real economic growth.

In order to allow the central banks to maintain such a monetary stance, it is essential that policymakers develop complementary fiscal policies. History has repeatedly shown that democratically elected governments which run consistent and large budgetary deficits inevitably choose to finance the debt by inflating the supply of money. As one wag put it, inflation is the traditional method by which governments make up the difference between what they spend and what they have the nerve to collect. Not only must the United States, and indeed all nations, avoid chronic, excessive budgetary deficits, but specific policies should be designed to encourage productive investment and capital formation, rather than current consumption and the erosion of capital. To paraphrase Lord Keynes and Peter Drucker, practical men must end their slavish devotion to the defunct economic theory that consumer demand *automatically* creates investment and, therefore, employment. Consumer demand is, of course, part of the answer, but structural problems require structural solutions.

If prudent and balanced macroeconomic policies in the leading countries of the world are the first key to limiting inflationary pressures, the second is the behaviour of the oil producing nations, particularly Saudi Arabia. Clearly, a third oil price shock would greatly increase the temptation of oil-consuming nations to pay off oil debts by printing money. One hopes that the oil producing nations will recognize it is in their own self-interest to support noninflationary policies in the United States and elsewhere by avoiding sudden and unpredictable oil price shocks which undermine the stability of the industrialized nations and indeed, their own petrodollar investments.

The third inflation pressure point lies in the degree and pace of acceptance of the new information technologies in the developed countries. There can be little doubt that the best way to make up the decline in purchasing power caused by the massive oil price hikes of the seventies, is to "do more with less" by substituting the cheap "brains" of the microchip for the expensive "brawn" of energy. Any attempt to slow down the so-called "information revolution" out of concern for possible employment effects will not "save" jobs—it will only result in lower productivity, slower economic growth and lost employment opportunities, creating even more pressure to reflate.

Fourth, the liquidity problems of certain developing nations clearly pose a threat to the integrity of the international financial system. Both private and commercial banks and international institutions must continue to work together to help debt-laden countries avoid default. It is essential that these problems not be allowed to escalate from their current manageable level into a vicious circle of economic dislocation that will greatly increase the chances of debt repudiation, either formally or through monetary inflation.

Finally, all nations must eschew neo-protectionist views of international trade as a war between nation-states, with the war's progress measured by the "balance of trade." In an era of production-sharing agreements and economic integration, nations should be concentrating on what the original Adam Smith called the annual balance between "produce and consumption"—the true measure of national wealth. The lip-service paid to global interdependence and the destructiveness of protectionism must be translated into real actions if the world is to avoid a repeat of the disastrous trade wars of the 1930s. Clearly, the further proliferation of nontariff barriers and unfair trade practices will lead only to inefficiencies, higher costs, unemployment, and even greater pressure to create the illusion of economic growth through reflation.

Can general price inflation be controlled? Certainly. Will it be controlled? Hopefully, yes. All one can do is remember the old proverb that wise men learn by other men's mistakes; fools, by their own. Let us hope those in charge of seeing the world through this decade have learned from the follies of others.

BANKING IN TRANSITION

Touche Ross & Co. Chairman W. Grant Gregory recently interviewed John F. McGillicuddy, Chairman & Chief Executive Officer of Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company, concerning the challenges and changes in the banking world today and in the future. What follows is a condensed and edited version of the dialogue.

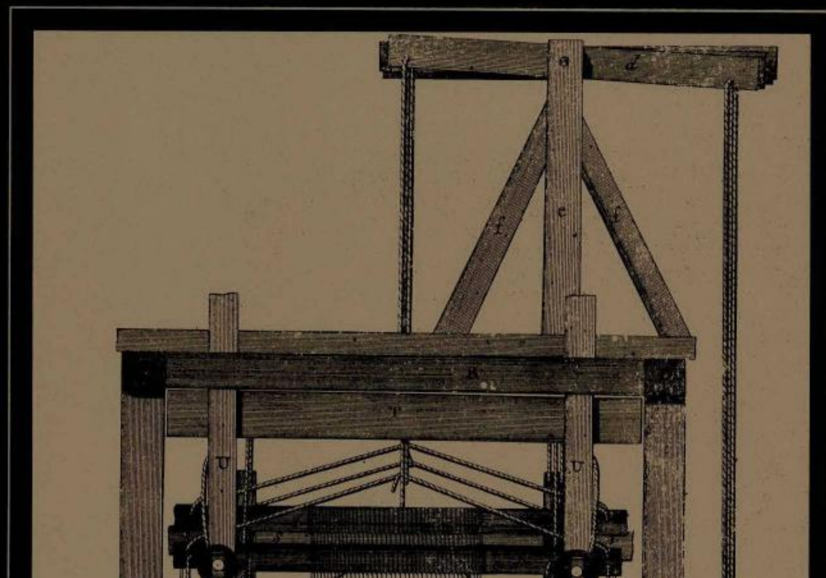
Grant Gregory: Today let's start with some major domestic issues affecting international banks. For example, how does the deregulation of the banking business and the related deregulation in other financial institutions change banking as we have known it?

John McGillicuddy: The deregulation of the existing banking system, and the primary deregulation, of course, concerning Regulation Q—the ceiling on interest rates that banks previously could pay for consumer deposits—is something that we in banking have been seeking for a long time.

Deregulation is very important because it allows banks to compete head on with money market funds. This will give us more stability in our deposit structure because we came to rely heavily on the money market funds for their deposits. We were becoming concerned that we would depend upon them too much for our funding process. So it is important that we can now offer interest rates that are attractive in the marketplace and that permit us to raise our funds directly.

Further, the liability structure is also made more stable in terms of moving funds and changing rates. Let me say that I have never been critical of money market funds. They are a great achievement of the free market system.

A way around the limitations of "Q" really revolutionized the banking and financial services industries



Elévation en face du Métier à Marly

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without any legislative or regulatory action.

The marketing of these funds was masterful. Isn't it incredible that over U.S. $200 billion was raised essentially by using toll free telephone numbers? And that people were willing to turn over their money where there was no equity, no insurance, no reserves, and no regulation?

Grant Gregory: Now that other institutions are expanding their banking activities or are entering banking through acquisitions, what do you think about their ability to compete with banks? Will they be able to grant and administer credit over a long period of time?

John McGillicuddy: I don't see any reason why not, Grant. Insurance companies have historically been lenders, long-term lenders, while the commercial banks have emphasized the short-term loans. We are now increasingly competing for the intermediate transactions.

We are also finding ourselves more and more in competition with the large commercial lenders, the CITs, etc. At the same time we are having increasing competition with the General Electric Credits of this world. There is no doubt that the nonbank competitors can be very effective, and they are now focusing on areas where we have always worked. We shall see a lot more excellent competition from them now. The rewards are there.

Grant Gregory: International loans have been very prominent in the press recently. Mexico, Venezuela, Brazil, Argentina, Poland, and now Yugoslavia are frequently cited as having difficulties repaying their loans. In some cases they are demanding new terms, often on a unilateral basis. New countries with the same problems will surely be coming along every day.

Are banks across the country now reexamining an aggressive lending posture? Will we still be engaging in these credits on a business-as-usual basis in the next five or ten years?

John McGillicuddy: Clearly it is not going to be a business-as-usual situation in the next few years. Whether we like it or not, fundamental questions are being asked in the banking profession. Do we have the ability to engage extensively in international banking? Does international activity by our banks benefit the country, and is it safe, and worthwhile?

I think that the answer to these questions is going to be a resounding "yes." We have had losses in the international area, but we have always had losses on a regular basis domestically. In fact, in the past, the international loan loss record has been more favorable than the domestic one for my institution. It is true that we cannot rely on this in the future, and there are some stormy seas ahead. However, people must realize that American banks went overseas in the first place to serve our American and multinational customers and support exports. In the process of expanding business overseas we became multinationals ourselves. Our customers are not just American companies but multinationals and nationals around the world.

I think that we must aggressively continue our involvement in the international economic process. The countries under the most intense debt pressure now largely constitute the most important trade clientele of the United States. If they don't have credit available to them it will diminish international trade and inhibit growth in the United States and in all the other industrialized countries. Then it is going to be increasingly difficult for all of us to escape from the recession, which has already been very long and continues to be relatively deep.

Grant Gregory: Often, we see American companies competing to sell their exports against companies that enjoy a more harmonious relationship with their governments, credit institutions, and manufacturers. I am thinking of Japan, for example. Don't you think that to increase our exports we must replace any adversarial relationships between government, credit, manufacturing, and labor, and do this far more consciously and emphatically than in the past?

John McGillicuddy: I agree that this is important. And I believe that the Administration has been attempting to create more cooperation among those seeking to increase export business. The Commerce and State Departments are more cognizant and supportive of American interests abroad, and certainly the Treasury Department is fully aware that we have to be world competitors.

I do believe that as we increase expansion into world markets we are going to be much more competitive. The pressures of the economy have caused tremendous efficiencies in our industries which are going to make them more successful in exporting than ever before.

Grant Gregory: The federal deficit for 1984 is estimated to be something in the range of U.S. $150 to $200 billion. Although short-term rates have been coming down, isn't there a danger that the very size of the deficit is going to put a floor under long-term rates?

John McGillicuddy: From an historical viewpoint they are still very high. In 1978, for example, our bank never financed itself in the long-term market at a rate in excess of 8.5 percent. Such a rate on a twenty-five year obligation would be ludicrous today.

The market has to have its eye on these huge deficits. The Administration said that it was going to balance the budget by its fourth year—which nobody really believed—and now we are talking about trying to get the deficit under U.S. $200 billion. The marketplace is understandably nervous.

The health of two of our most basic industries is sensitive to the interest rates. In housing and automobiles, the rates have to get much lower than they are to stimulate significant increases in sales. Yet they must play a major role in the economic recovery.

However, it seems most cars can only be sold when offered by the captive finance companies at a rate below what the banks are charging. How long can the car manufacturers carry this financial burden?

Home mortgage rates must clearly come down, as well. So while we have a market so nervous about huge deficits, we are going to continue to have problems with interest rates.

Grant Gregory: In the last several years the dollar has been very strong. Will this relative strength continue or will it come down?

John McGillicuddy: From an economic point of view, most of the industrialized countries are suffering from the same problems. However, from a financial perspective the United States continues to be the most attractive place to invest money because of our great political stability, combined with the fact that we have the largest and most active market in the world.

We have also demonstrated an ability to react swiftly and positively to problems. We are a very pragmatic people compared with most in the world.

Grant Gregory: A good example is restructuring of labor contracts, some with caps, some with reductions, others with a sharing of equity or participation in profits.

John McGillicuddy: I remember that business and financial leaders in Europe were amazed that American labor would participate in this. In many other countries such cooperation would not happen. The experience in the United Kingdom, for example, has been very different.

You see, in a very real sense the American dream still exists. Everybody wants to get a little farther down the road, and they do believe that the opportunity is there for them. As a consequence, I think that we have the strongest and most positive, even optimistic, national fabric of any people in the world, despite the setbacks we suffer.

Our pragmatism can make meaningful cooperation between industry, labor, the banks, and the consumer more productive for all of them. Finally, I think that closer working relations between the private and public sectors are terribly important in generating stronger competitive situations for American business worldwide. I hope that these relationships will grow closer and show improvement over the past.

PROSPECTS FOR ECONOMIC GROWTH IN THE NEXT DECADE

by Dr. Bohdan Hawrylyshyn
Director, International Management Institute—Geneva

IS GROWTH OUT OF FASHION?

For twenty-five years after World War II, growth had a clear meaning. It had mobilizing power for most people in the older industrialized countries and the newly emerging ones. Growth was equated with increasing prosperity and well-being. The percentage increase in real terms of per capita GNP was used as an indicator of economic progress. It was even felt that economic growth would not only lead to increasing levels of consumption, but also to a better distribution of income. As more and more people were drawn into the growth press, wealth would "trickle down" to the most needy. A whole generation which remembered the depression and the hardships of World War II was willing to commit its energies to the production of wealth. In Japan this commitment to work was further enhanced by the desire to "outperform" others and thus redeem national self-esteem.

The pent-up domestic demand in the United States, the need and will to reconstruct in Europe, the ability of a number of countries to borrow avant-garde technologies in order to catch up were the early primers to a take-off into the heady period of the late forties and fifties. Free access to resources, cheap energy, liberalization and consequent expansion of trade under a stable and sound international order, resulting in improved productivity on a broad front of activities, sustained the momentum of growth during the sixties.

In the early seventies questions about growth were raised, doubts about its virtues were expressed and the feasibility of its continuation was questioned. People started highlighting the negative spill-over effects of sheer quantitative expansion, and began to worry about environmental pollution and the ecological damage caused by rapid industrialization. They also realized that the rate of population growth was neatly matching the rate of GNP growth in many countries. Were we not perhaps chasing our own tails and endangering our limited biosphere in the process?

All the above diminished resolve and started putting brakes on growth. But the oil shock of 1974 put a real damper on momentum and acted as a catalyst for all the underlying forces acting against growth. The very expression "economic growth" began to show some signs of wear, and the use of expressions like "negative growth" rather than the plain word "decline" demonstrated the nostalgic attachment to growth and the desire of political leaders to camouflage the fact that an exceptional period in economic history was over.

Yet, as one contemplates the state of the world, it becomes patently obvious that growth is badly needed everywhere, though for different reasons. For less developed countries (LDCs) it is desperately needed in order to satisfy the minimal needs of most of their people.

In developed countries growth is needed in order to avoid social and political upheavals, to carry the burden of the social overheads that were built up in the decades of prosperity and to cushion the process of structural adaptation imposed by the triple effects of a massive oil price increase, intense competition from developing countries and rapidly advancing technology.

Economic growth, as a notion, an objective and a mobilizing force, is therefore becoming more respectable again, though in a somewhat refined form, that is, it cannot or should not take place at the expense of ecological degradation or undue distortion of the societal fabric.

In fact, even during the seventies, a number of countries grew rapidly. First were some of the oil-producing countries where wealth expanded without much work. Then there were some others, like Brazil, where natural resources were combined with hard work, at least in the industrial enclaves. Finally, there were those that followed in the footsteps of Japan where growth was created by combining western technology with the intense motivation and discipline at work that are characteristic of some of the oriental cultures.

PRECONDITIONS FOR A NEW TAKE-OFF

The prospects for the next few years are bleak. The outlook brightens, however, as we look towards the end of the decade. The return to a sunny economic climate requires a number of preconditions. They are listed in a summary fashion below:

• International trade must continue. There has to be the political will and capacity to withstand the assaults of protectionism, particularly in North America and Western Europe.

• Japan must make a contribution to this by opening up further the access to its internal "free market."

• The international monetary system must not collapse. It looks very fragile right now. The indebtedness, particularly of Third World countries, appears frightening.

• Western countries must reduce the level of social overheads to restructure their economies and render them more competitive in general. This implies retraining many people, shifting them to new occupations, facilitating the introduction of new technologies and coping with high levels of unemployment which will persist for years to come.

• Energy prices, and particularly oil prices, must not make another quantum leap.

• The upward spiralling of military budgets has to be dampened.

• Developing countries need to reduce waste, increase the importance of the agricultural sector and select industrial sectors for promotion with great care.

• Developed countries must keep their markets open to manufactured goods from developing countries. In this way, debts will be repaid on time and the financial system will remain healthy.

FEASIBILITY OF RENEWED GROWTH

Can these conditions for a new take-off be ensured? The most important condition does already exist, that is, that growth is respectable when it is compatible with ecological constraints and the minimal welfare of most of the people.

• Will international trade continue or will protectionist forces win? The voices of protectionism are very loud now. There are also countervailing forces rooted in an intuitive and historically based understanding of the great dangers of protectionism and isolationism with their accompanying downward spiral in levels of economic activity and standards of living. We are not likely to see the full triumph of free-market forces, yet there will be a continuous battle to keep trade flowing.

• Japan is conscious of the fact that unless it facilitates access to its domestic market for its client countries, it will suffer from protectionist moves.

• While the fragility of the international monetary system appears great because of the enormous size of the debts of some countries, like Argentina, Brazil, Mexico, and Poland, the collapse of the monetary system is neither imminent nor inevitable. This optimistic view is based on two observations. First, the great central banks of the industrial world are unlikely to let the international financial system collapse. In a crisis, they would become lenders of last resort on a large enough scale to offset the effects of default. Second, some of the indebted countries have a liquidity crisis requiring the "rolling over" of debts, but they do not have a long-term solvency problem.

• There are, of course, some countries which have both a liquidity and a solvency problem, like Poland. It is to be hoped that countries in this category will not tip the balance of the international monetary system. Most countries are fully capable of overcoming that temporary liquidity problem. We could put Brazil into this category—a country with a huge natural resource base, a significant industrial sector, some technical and managerial know-how and a demonstrated capacity to increase its level of exports if only the markets for its products are kept open.

• Can Western countries trim their budgets and guide the process of economic restructuring? Some Western countries are trying hard. The United States have made a lot of political noise about this. The U.K. has been going at it with great determination, even though without concomitant success. Germany seems to be setting itself on this course. The fact that in Western countries rates of inflation have diminished significantly and the cost of capital has decreased augurs well for the future. It is becoming less attractive to keep one's money on term deposits or indulge in speculative ventures, and more attractive to start investing again in industrial activities with a longer-term pay-off.

• Can energy costs be prevented from exploding again? The probability is high. The economies of many countries have become less energy-intensive. Oil has come on the market from new sources. Some oil-producing countries are under serious pressure to produce more to stay solvent. Alternative energy sources are developing, even if slowly. In fact, oil prices could go down in real terms.

• Can military budgets be reduced rather than increased, as is the current temptation? Not within the next few years, but perhaps later on in the decade. Flexible response and technical breakthroughs in defensive weapons may make the build-up of offensive military arsenals look futile. Furthermore, arms reductions is a positive gain for the protagonists. Perhaps the new generation of leaders, both in the Kremlin and in Washington, will no longer be able to resist its logic.

• Finally, the problem of LDC debt will have one important beneficial spin-off: it will force many leaders to do some hard thinking, to take some hard decisions. These countries will, of necessity, grow in political and economic maturity. Hence, sounder objectives, including giving proper priority to agriculture, are likely to emerge. As the level of activity in the developed countries picks up, it will pull up with it not only demand but also the prices of many primary commodities, thereby reinjecting into the LDCs the means for repayment of debts, leading to a new take-off.

LIKELY WINNERS: COUNTRIES AND SECTORS

The countries that are likely to do well are those with at least some of the following attributes: a rich base of *natural resource* endowments, the *will* to work hard, a broad range of *know-how* to work effectively, and high rates of *investment* to amplify human effort and to expand their production capacity.

The United States with its natural resources, highly productive agriculture, propensity to work and a strong position in a number of avant-garde technologies will probably resurface as a high performer. Canada's economic fortunes will remain hitched to the U.S.'s economic wagon, and those of Australia will be linked more and more to Japan. Japan, with its people's dedication to work, the will and ability to acquire knowledge in most fields, and the continued propensity to save, will continue to be among the champions unless protectionist gates are closed against its exports. Other Sinitic-culture countries, such as South Korea, Taiwan and Singapore, have demonstrated the capacity to create magic with Western technology and oriental discipline at work. The ASEAN countries are also likely to continue to grow. Brazil, with its rich natural resources and great faith in its destiny, is likely to break out of its present indebtedness. Europe is not likely to lead the pack, but it will probably achieve much of its necessary restructuring and improve the economic wisdom of its political management during this coming decade.

Which sectors of activity are likely to prosper? In countries in an advanced stage of development, there are some clear candidates, such as the information and telecommunications industries, office automation, robots, control equipment, public transportation equipment aid systems, the medical and pharmaceutical sectors, some recreational areas, as well as some financial service activities. In developing countries that are in the catching-up phase, many of the traditional industries will have good prospects, though with short "product life cycles," as new countries break into the newly industrialised country (NIC) category.

Companies with heavy investment in big facilities in mature industries with long amortization periods and low liquidity will suffer. Those with more flexible assets, with a high technological innovation capacity and organizational flexibility will prosper. Among the winners there will be a number of small and medium-sized companies with clear technology-market niches.

Finally, those multinational companies that have a global vision yet local know-how, a global optimization capacity and a geocentric view, yet are living in symbiosis with a variety of cultural, economic and political environments, will not only prosper, but help to maintain the necessary interdependence and some cohesion in our very polycentric world.

TOUCHE ROSS

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: April 29, 1983

NAME	ROOM NO.
Mr. William S. Humphrey	E 1231

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

REMARKS:

Please find attached copies of the Financial Report for the month of March 1983.

FROM:	ROOM NO.:	EXTENSION:
Michael J. Gillette	I 4-174	61053

FIS/MC83-29
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MONTHLY FINANCIAL REPORT FOR MARCH 1983

A. HIGHLIGHTS (* flags a major problem)

1. IBRD

- Borrowings: on target (Section B.1).

* - Disbursements: disbursements to countries likely to be some $900 million (12%) below the budget estimate; increase in FY83 borrowing program approved in connection with Special Action Program substantially exceeds amounts necessary, given existing liquidity targets for FY83. (Sections B.2 and C.2.)

- Loan Service Payments: deterioration in country performance suggests the need for more careful country-by-country monitoring. (Sections B.2 and D.)

- Capital: on target (Section B.3.)

- Investments: yield down slightly from previous projections but volume increase offsets income effect. (Section B.4.)

- Net Income: revised forecast lowers expected outcome for FY83 from $800 million to $750 million. (Section C.1.)

- Liquidity: current year-end ratio target likely to be substantially exceeded. (Section C.2.)

2. IDA

- Disbursements: good disbursement performance through third quarter leads to revision (upward) of expected FY outcome. (Section B.2.)

- Commitment Authority: on target. (Section B.3.)

3. Special Topic: Further analysis of loan service payments experience. (Section D.)

B. STATUS OF FINANCIAL PROGRAMS

1. BORROWINGS

(a) March Borrowings:

Eleven borrowings were completed in March totalling $1,009.2 million equivalent with an average life of 6.8 years and an average cost of 7.94%. These borrowings included Yen, DM, Guilders, SwF, Can$ and BF. In addition 8 swap transactions were completed. The status of FY83 borrowings at the end of March is provided in the table shown under (b).

(b) Cumulative FY83 Borrowings:

The cumulative borrowings by currency, compared to the revised FY83 borrowing program, are as follows:

CURRENT FY83 PROGRAM 1/				CUMULATIVE TO MARCH 31, 1983 3/					
							Average		Achieved in
Amount (in millions)	US$ Equiv. (in millions)	%	Currency	Amount (in millions)	US$ Equiv. (in millions)	%	Life: yrs.	Cost: %	first nine months (%)
1,738.5	1,738.5	18	US Dollars	1,884.3	1,884.3	22	7.8	11.83	108
3,503.8	1,423.5	14	Deutsche Mark	2,869.0	1,161.5	13	7.4	8.31	82
4,949.3	2,346.5	24	Swiss Francs	4,484.8	2,106.8	24	5.5	6.64	90
320,000.0	1,292.9	13	Japanese Yen	230,000.0	922.4	10	10.2	8.66	71
1,751.7	647.2	6	Dutch Guilders	1,933.7	715.9	8	6.1	8.71	111
	478.6	5	Other		504.3	6	5.7	11.02	105
	7,927.2 2/	80	SUB-TOTAL		7,295.2	83	7.1	9.01	92
	2,000.0	20	Short-term Borrowing (US$)		1,450.0	17	51 days	8.75	73
	9,927.2	100	TOTAL		8,745.2	100	5.9	8.96	88
			Less: to be settled		1,069.1				
					7,676.1				
			Add: FY82 settlements		566.3				
			TOTAL SETTLED		8,242.4				

1/ This borrowing program reflects the increase approved in the context of the Special Action Program.

2/ Medium- and long-term borrowing program could increase to $8,800 million if proposals affecting the level of the Bank's liquid holdings are approved by the Board.

3/ Throughout, swap transactions are reflected in the currencies into which they were swapped. During the first nine months, a total of US$1,116.2 million was swapped into SWF 2,364.3 million at an average cost of 6.8%; a total of US$187.4 million was swapped into DM 469 million at an average cost of 7.62%; a total of US$68.5 million was swapped into f. 183.7 million at an average cost of 7.64%; and a total of US$101.9 million was swapped into £67.7 million at an average cost of 10.61%.

(c) April Borrowings:

Planned borrowings for April would amount to approximately US$422 million equivalent and would consist of DM, Guilders, Yen and SwF. This would leave for May a balance of US$100/200 million to complete the current medium- and long-term Borrowing Program.

Despite some periodic fluctuation, interest rates in the US are expected to remain at current levels with a further flattening of the yield curve occuring through April and May. Technical factors will keep short term rates relatively high, while the considerably improved inflationary outlook should increase the demand for longer term securities. Rates in the other major markets should remain unchanged in response to conditions in the US.

2. DISBURSEMENTS AND LOANS SERVICE

(a) IBRD:

Disbursements to and loan service payments from members were as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of March	Cumulative FY83 to March	Cumulative FY83 to March	Full year FY83	Month of March	Cumulative FY82 to March	Full year FY82
Disbursements 1/	570	4,783	5,436	7,300	610	4,615	6,324
Service Payments:	430	3,430	3,632	4,966	342	2,879	3,994
Principal	193	1,476	1,656	2,207	142	1,171	1,683
Charges 1/	237	1,954	1,976	2,759	200	1,708	2,311
NET TRANSFER	140	1,353	1,804	2,334	268	1,736	2,330

Cumulative disbursements to countries for the first nine months of FY83 were $4,783 million, 66% of the budget forecast and 7 percentage points below the average of 73% of actual FY totals over the same period for the past six fiscal years. Disbursements in March were $570 million. This figure was higher than those for the disbursements in February ($362 million) and January ($507 million), but the monthly average disbursements of $480 million for those three months was still below the monthly average of $557 million for the first six months of FY83.

1/ Excludes front-end fees.

Country by country analysis of disbursements indicates that although there was an overall improvement in March compared to January and February, the slowdown has persisted for the Latin American group of countries, notably Brazil and Mexico.

IBRD net resource transfers to members were a positive $140 million in March compared to a negative $45 million in February. However, IBRD cumulative FY83 (through March 31) net transfer is negative to three countries currently rescheduling a portion of their external debt: Argentina ($-13 million), Mexico ($-12 million) and Zambia ($-15 million).1/ In addition, net transfer to Brazil turned negative in February and March ($-36 million for the two months), but remains positive for the nine months of the FY ($132 million).

FY83 Monthly Disbursements to Major Borrowers 2/3/

	1st Half		Average Jan. and Feb. 1983 (in US$ millions)		Average Jan. thru Mar. 1983	
Project Disbursements						
Brazil	56		41		40	
Indonesia	43		37		44	
Romania	41		25		30	
Korea	39		39		38	
Mexico	35		21		18	
Colombia	27		27		28	
Yugoslavia	27		22		23	
Philippines	20		17		19	
India	19		15		24	
Thailand	18		19		20	
Turkey	14		12		17	
Malaysia	12		7		10	
Morocco	11		18		23	
Nigeria	11		11		11	
Egypt	8		11		11	
Ivory Coast	8		4		7	
Peru	8		7		6	
Tunisia	7		10		9	
Kenya	7		5		8	
Argentina	6		8		7	
	417	(75%)	356	(82%)	393	(82%)
Other countries	59	(11%)	70	(16%)	69	(14%)
Sub-total	476		426		462	
Non-Project Disbursements	81	(14%)	9	(2%)	18	(4%)
Totals	557	(100%)	435	(100%)	480	(100%)

1/ The Bank suspended disbursements to Zambia from April 6 to April 19, 1983 because of poor debt service performance.

2/ Ranked in descending order of magnitude of project disbursements received in the first-half of FY83.

3/ Excludes front-end fee capitalizations.

A sector by sector comparison of the monthly average disbursements in FY82 and the first nine months of FY83 indicates very little growth in the disbursements on agricultural loans and significant declines in disbursements on DFC, energy and non-project (SAL and program) loans. Further, new IBRD commitments to DFC's in FY83 up to the end of March totalled $371 million, only 28% of the $1.3 billion approved in FY82.

Monthly Disbursements by Sector 1/

Project Disbursements	Average FY82	Average FY83 to End March
	(in US$ millions)	
Agriculture	118	123
Transportation	72	82
Power	63	75
DFC	61	51
Environmental Control	26	30
Industry	29	32
Urban Development	13	19
Education	13	21
Energy	32	22
Telecommunications	6	8
Pop., Health & Nutrition	2	2
Engineering	2	3
Tourism	3	3
Technical Assistance	2	1
Other	4	-
Sub-total	446	472
Non-Project Disbursements	79	60
Total All Sectors	525	532

A survey of the Regional offices indicates that perhaps as much as $75 million in incremental disbursements could arise as a result of activities currently underway under the Special Action Program (versus $150 million suggested in the mid-year budget memorandum). This amount, when added to the current best estimate for "normal" disbursements to countries still leaves the probable outcome for FY83 at $6,400 million, $900 million (12%) short of the budget forecast of $7,300 million.

1/ Excludes front-end fee capitalizations.

Cumulative disbursements to IFC were $26 million at the end of March, only 13% of the FY83 budget forecast of $200 million. FY83 disbursements to IFC are presently expected to run well under $100 million. The front-end fee is a special case; the original budget forecast assumed a 1.5% front-end fee throughout the FY and capitalized fees were projected at $155 million. The current estimate is $115 million. In total, IBRD disbursements to countries, to IFC, and including front-end fees are now projected at $6,600 million, 14% short of the budget estimate.

Overdue Service Payments

At the end of March, total overdues were $45.7 million from 29 countries with payments overdue more than 30 days totalling $19.0 million from 14 countries. The service payment overdue more than 120 days is from Algeria which has informed IBRD that it has now made this payment (confirmation is awaited from the IBRD's depositories). The following table provides an age analysis of the overdues at March 31, 1983.

(In US$ millions)

Country	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Colombia	12.1	12.1	-	-	-	-
Zambia 1/	11.9	.8	6.2	4.9	-	-
Bolivia	3.8	3.8	-	-	-	-
Togo, Ghana & Ivory Coast 2/	3.4	-	3.4	-	-	-
Dominican Republic	2.9	2.4	.5	-	-	-
Tanzania	1.9	1.9	-	-	-	-
East African Community 3/	1.3	.6	.6	-	.1	-
Kenya	1.3	-	1.3	-	-	-
Honduras	1.1	.8	.3	-	-	-
Others 4/	6.0	4.3	.8	-	-	.9
Total (as of March 31, 1983)	45.7 5/	26.7	13.1	4.9	.1	.9
Memo: as of February 28	57.5	33.3	18.5	4.8	-	.9

1/ Disbursements were suspended from April 6 to April 19, 1983.

2/ CIMAO Cement Project.

3/ Comprises Kenya $.3 m, Tanzania $.6 m and Uganda $.4 m.

4/ Each less than $1.0 m (20 countries).

5/ Of this, $31.0 m has been settled from April 1 through April 20, 1983 as follows: Colombia $12.1 m, Zambia $8.2 m, Bolivia $3.8 m, Honduras $.3 m, East African Community $1.0 m, Others $5.6 m.

(b) IDA:

Disbursements and credit service data for IDA are as follows:

	(in US$ millions)						
	FY83				FY82		
	ACTUAL		BUDGET		ACTUAL		
	Month of March	Cumulative FY83 to March	Cumulative FY83 to March	Full year FY83	Month of March	Cumulative FY82 to March	Full year FY82
Disbursements	445	2,015	1,753	2,500	306	1,412	2,067
Service Payments:	16	137	140	186	14	109	156
Principal	5	44	44	58	5	33	51
Charges	11	93	96	128	9	76	105
NET TRANSFER	429	1,878	1,613	2,314	292	1,303	1,911

Cumulative disbursements in FY83 up to the end of March 1983 were 81% of the FY83 budget forecast, compared to an expected 70%, according to past experience. IDA disbursements in March were $445 million, more than double the monthly average for disbursements in the preceding eight months of the fiscal year. Of this $445 million, $301 million was to India, which usually submits bunched disbursement applications in March in time for its March 31 fiscal year-end. Total IDA disbursements for FY83 are expected to be around $2,600 million, $100 million over the FY83 budget forecast of $2,500 million. It is expected that calls made on donors for the last quarter of FY83 will be sufficient to cover this estimated increase in disbursements.

Overdue Service Payments

Total overdues at end-March were $4.7 million from 21 countries. Chad and Tanzania together account for 51% of the overdue amounts, with Chad's overdues still at $1.2 million, $1.0 million of which are more than 120 days. Though the political situation in that country has stabilized, the economy has not recovered. A Bank mission in December prepared a program for economic recovery and once that is in place, and the country is expected to settle its overdue service payments within a period to be agreed. The suspension of disbursements to Chad has been partially lifted following receipt of a partial payment of its arrears.

(In US$ millions)

	Total	Under 30 days	30-60 days	60-90 days	90-120 days	120 days+
Chad	1.2	-	-	*	.2	1.0
Tanzania	1.2	.7	.5	-	-	-
Uganda	.5	.3	.2	-	-	-
Sudan	.4	.4	-	-	-	-
Zaire	.3	.3	-	-	-	-
Congo	.2	.2	-	-	-	-
Ghana	.2	.2	-	-	-	-
Madagascar	.2	.2	-	-	-	-
Burundi	.1	.1	*	-	-	-
Sierra Leone	.1	.1	*	-	-	-
Senegal	.1	.1	-	-	-	-
Nicaragua	.1	.1	-	-	-	-
Others 1/	.1	.1	-	-	-	-
Total (as of March 31, 1983)	4.7 2/	2.8	.7	*	.2	1.0
Memo as of February 28:	4.4	1.8	1.1	.5	-	1.0

1/ Each less than $.1 m (9 countries).

2/ Of this, $1.7 m has been settled from April 1 through April 20 as follows: Tanzania $.4 m, Uganda $.2 m, Zaire $.2 m, Congo $.1 m, Ghana $.2 m, Madagascar $.2 m, Senegal $.1 m, Burundi $.1 m, Nicaragua $.1 m, Others $.1 m.

* Insignificant.

3. CAPITAL SUBSCRIPTIONS/IDA COMMITMENT AUTHORITY

(a) IBRD Capital:

At March 31, the structure of IBRD capital and reserves was as follows:

	US$ millions
(1) Capital	
Loanable Capital	2,866
Add: Unreleased Local Currency	1,861
PAID-IN CAPITAL	4,727
Amounts Uncalled	47,280
SUBSCRIBED	52,007
Unsubscribed	25,279
AUTHORIZED 1/	77,286
(2) Paid-in Capital and Reserves	
Paid-in	4,727
Reserves	3,457
FY83 Accumulated Income	613
TOTAL	8,797

1/ Total shares authorized: 716,500

	authorized	subscribed a/	subsc. as % of authorized
of which			
Part I	428,186	330,141	77%
Part II	286,417	152,000	53%
Unallocated	1,897	-	

a/ Includes agreed arrangements for the phasing of subscriptions.

(b) IDA Commitment Authority 1/	SDR Million
(1) Available Commitment Authority as of March 31, 1983	
Total Available for Commitments at July 1, 1982	128
Add: Contributions Received	
- IDA6	2,478
- Special Fund	40
- Other Resources (including IBRD transfers, credit repayments, etc.)	210
	2,856
Less: FY83 Credits Approved through March 31	1,737
COMMITMENT AUTHORITY AT MARCH 31, 1983	1,119

Additional donor pledges from Brazil, Canada, France, the UAE, and Portugal should provide SDR 210 million more for credit commitment in FY83 (bringing the Commitment Authority for FY83 to about SDR 3.1 billion), provided the required notifications are submitted to the Association by the end of the fiscal year.

4. INVESTMENTS

Relevant data on investments are as follows:

(a) By Currency:

(US$ millions)

	POSITION AT:			
	Feb. 28, 1983		March 31, 1983	
	Book Value	Yield (%)	Book Value	Yield (%)
Investments in:				
US Dollars	9,372.9	9.12	9,209.6	9.55
Non-US Dollars	2,778.4	11.75	3,186.4	11.33
TOTAL	12,151.3	9.72	12,396.0	10.01

1/ Valued at March 31, 1983 exchange rates.

(b) By Maturity:

(in US$ millions)

	POSITION AT MARCH 31		
	Book Value	Yield	Unrealized Gains/Losses
Up to 6 months	6,505	10.19	(2)
6 months to 1 year	670	10.72	2
Sub-total up to 1 year	7,175	10.24	0
1 to 2 years	3,111	9.64	(15)
2 to 3 years	329	9.90	0
3 to 4 years	357	9.80	1
4 to 5 years	817	9.60	3
Over 5 years	607	10.01	(7)
Sub-total over 1 year	5,221	9.70	(18)
TOTAL INVESTMENTS	12,396	10.01	(18)
Add: Other Cash Balances	297		
TOTAL LIQUID ASSETS	12,693		

(c) Realized Returns:

	%
Original Budget	10.75
Month of March	10.54
FY83 Cumulative	13.06

Total income from securities lending in March amounted to US$0.6 million; the FY83 cumulative figure was US$18.8 million through March.

During March interest rates in the United States moved up by about 70 basis points for 1-year maturities. The immediate impact of this was reflected in unrealized capital losses of $15 million in the portfolio at the end of March; on the other hand, the dollar portfolio was extended which raised the average yield to maturity from 9.12 to 9.55%. By the middle of April, unrealized gains stood at about $20 million.

C. IBRD NET INCOME AND LIQUIDITY

1. NET INCOME

Net income for FY83 is presently projected at $750 million, down $50 million from the previous revision in January. Loan income is now expected to be down from the earlier projection because of slower disbursements and delays in collecting front-end fees. Because the volume of cash and securities has gone up since the previous projections, income from investment could be expected to offset the lower income from loans; however, the rate of return on the investment portfolio is now expected to be somewhat lower, reflecting a faster drop in rates than had been expected in January.

With only three months remaining in FY83, the most important income uncertainty is the return on investments. Only $2.8 billion of cash and securities will be newly priced between April 1 and June 30, 1983. This means that changes in interest rates will not have a profound effect on interest income. However, on March 31, the IBRD portfolio was positioned in such a way that an unexpected 100 basis point drop in interest rates all across the yield curve would erase the unrealized losses and create over $100 million of potential gains. Capital gains, if realized, will require further adjustments in the FY83 income estimate.

2. LIQUIDITY POSITION

Total cash and securities plus expected payouts from borrowing contracts at March 31 amounted to US$ 13.5 billion. The present estimate for the year-end cash balance plus receivable on borrowings is $14.4 billion, which reflects the revised IBRD disbursement projection and an increase in the FY83 borrowing program to $10.8 billion (as recommended to the Executive Directors in the memorandum on liquidity policy distributed April 13th). If realized, this level of liquid holdings amounts to about 47% of our current estimate of the next three years' net cash requirements.

D. SPECIAL TOPIC: IBRD Overdue Service Payments Trend

The chart on page 14 tracks the month-end situation from July 1981 through the first nine months of FY83 and indicates a steady deterioration in borrowers' service payments performance, particularly in FY83. In the first half of FY83, overdues were 15 percent of the total service payments due and were on average 29 days late, compared to 11 percent and 25 days for the preceding four semesters.

The following table lists chronic offenders in two ways, first in frequency of delinquency and again when the offender's overdues are a significant proportion of what he owes (irrespective of its importance to the Bank). In some cases, the worst offenders fit both categories.

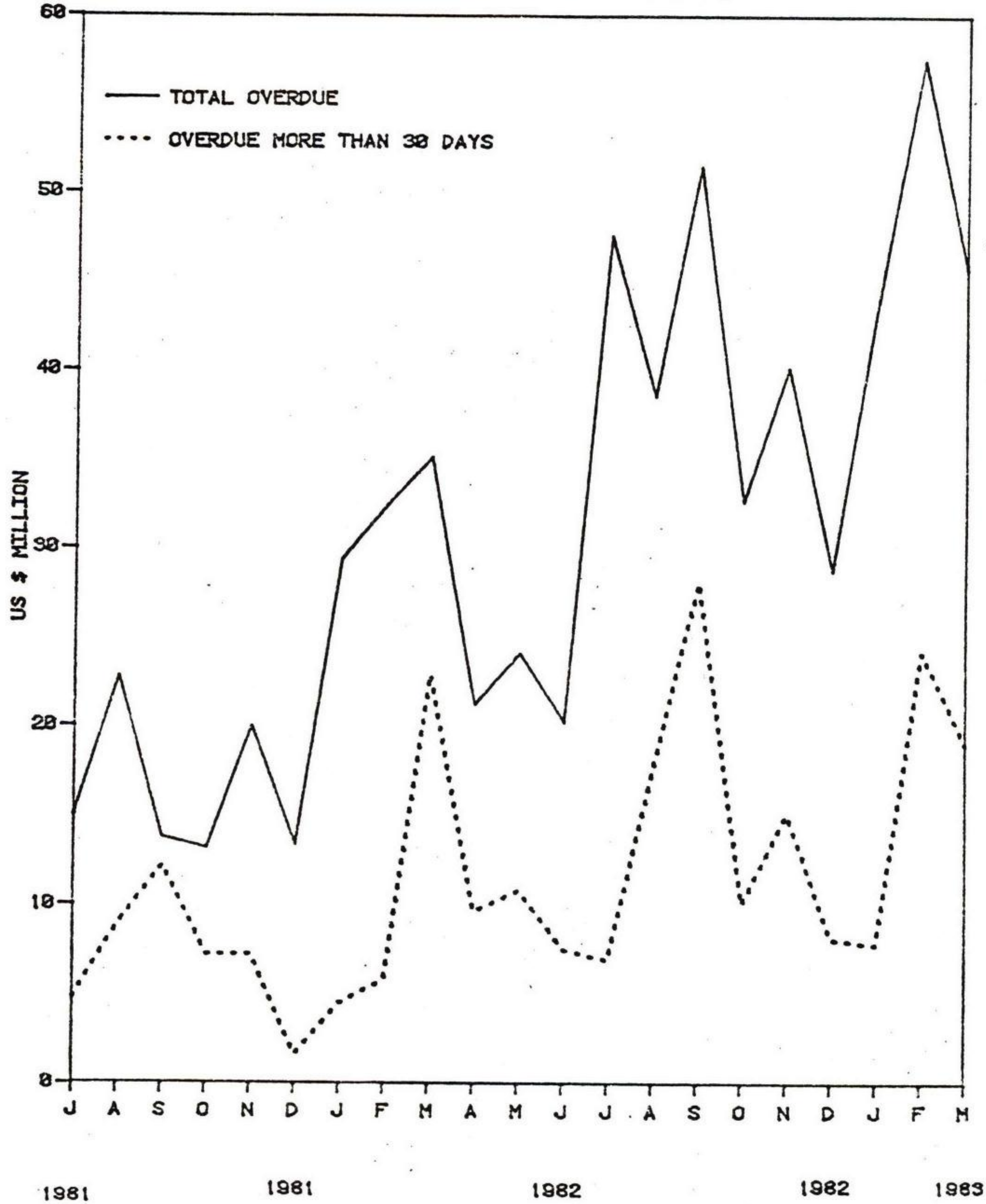
Chronic offenders 1/	Chronic offenders with large percentage overdues 2/
Dominican Republic	Dominican Republic
East African Community	East African Community
El Salvador	
Ghana	Ghana
Honduras	
Kenya	
Liberia	Liberia
Nicaragua	Nicaragua
Senegal	
Syria	
Tanzania	Tanzania
Tunisia	
Turkey	
Zambia	Zambia

Tanzania, Zambia, Liberia and the Dominican Republic are experiencing severe balance of payments problems, due to shortfalls in foreign exchange earnings, and are making only sporadic payments to the IBRD; Zambia, Liberia and the Dominican Republic recently concluded agreements with the IMF. Because of the seriousness of the overdues from Tanzania and Zambia, disbursements to them were suspended for 121 days and 4 days, respectively, in 1982. Disbursements to Zambia were again suspended from April 6 to April 19, 1983 due to poor debt service performance.

1/ Includes all countries appearing four or more times on month-end overdue service payments lists during the period October 31, 1982 through March 31, 1983.

2/ Includes all chronic offenders whose average overdue service payments at month-end during the period October 31, 1982 through March 31, 1983 exceeded 10% of their respective FY82 total service payments.

IBRD
OVERDUE SERVICE PAYMENTS



FINANCIAL REPORT FOR MARCH 1983

Summarized IBRD Financial Results

(In US$ millions)

FY82 COMPARATIVES				FY83							
FY82 ACTUAL	MONTH OF MARCH	CUM. TO MAR.1982		MONTH OF MARCH BUDGET	MONTH OF MARCH ACTUAL	MONTH OF MARCH VARIANCE	CUMULATIVE TO MARCH BUDGET	CUMULATIVE TO MARCH ACTUAL	CUMULATIVE TO MARCH VARIANCE	ORIGINAL BUDGET	REVISED BUDGET
			1. KEY ELEMENTS OF INCOME								
2,391	201	1,735	Interest and other income on loans	253	249	-4	2,130	2,056	-74	2,965	2,801
955	95	717	Investment income	107	109	2	891	1,088	+197	1,200	1,426
27	4	19	Other income	2	1	-1	19	13	-6	25	18
3,373	300	2,471	Income	362	359	-3	3,040	3,157	+117	4,190	4,245
2,462	217	1,792	Financial expenses	283	276	+7	2318	2282	+36	3,246	3,147
313	31	216	Administrative expenses	37	37	-	262	262	-	362	348
2,775	248	2,008	Expenses	320	313	+7	2,580	2,544	+36	3,608	3,495
598	52	463	NET INCOME	42	46	+4	460	613	+153	582	750
			2. KEY ELEMENTS OF CASH FLOW								
598	52	463	Net Income	42	46	+4	460	613	+153	582	750
8,029	808	5,721	New Borrowings	876	949	+73	7,994	8,242	+248	9,902	11,145
2,829	405	2,315	Less: Debt retirement	350	347	+3	2,376	2,405	-29	2,967	2,939
5,200	403	3,406	NET NEW BORROWINGS	526	602	+76	5,618	5,837	+219	6,935	8,206
278	58	227	New loanable capital	17	11	-6	92	244	+152	405	350
6,076	513	4,096	TOTAL SOURCES	585	659	+74	6,170	6,694	+524	7,922	9,306
6,374	610	4,640	Disbursements	742	587	-155	5,702	4,877	-825	7,655	6,600
1,709	142	1,187	Less: Repayments	201	193	+8	1,678	1,494	+184	2,236	2,073
4,665	468	3,453	NET DISBURSED	541	394	-147	4,024	3,383	-641	5,429	4,527
174	1	150	Payments to IDA	-	-	-	26	10	-16	35	25
1,188	137	444	Increase in cash and investments	77	381	+304	2,060	3,441	+1,381	2,388	4,914
49	-93	49	Net increase in other assets	-33	-116	-83	60	-140	-200	80	-160
6,076	513	4,096	TOTAL USES	585	659	+74	6,170	6,694	+524	7,922	9,306
			3. KEY BALANCE SHEET ITEMS								
9,394		8,713	Liquid assets				11,448	12,693	+1,245	11,783	14,164
29,168		28,914	Portfolio assets				33,799	32,894	-905	35,587	34,038
38,562		37,627	EARNING ASSETS				45,247	45,587	+340	47,370	48,202
31,840		30,858	Borrowings				37,960	38,050	+90	39,602	40,408
2,680		2,685	Loanable Capital				2,810	2,867	+57	3,158	2,973
4,469		4,464	Reserves and other				4,964	4,933	-31	5,099	5,055
-427		-380	Other				-487	-263	+224	-489	-234
38,562		37,627	TOTAL LOANABLE RESOURCES				45,247	45,587	+340	47,370	48,202
			4. NOTES								
			Breakdown of Loan income:								
2,161	184	1,592	- Interest	222	219	-3	1,845	1,822	-23	2,567	2,487
191	16	142	- Commitment Charges	18	18	-	162	158	-4	234	214
39	1	1	- Front-end Fee	13	12	-1	123	76	-47	155	100
			Contributions to Special Programs								
23	10	13	(included in admin. expenses)	4	1	-3	13	10	-3	24	24
			Net disbursements to IFC								
			(included in net disbursements above)								
48	-	25	- Disbursements	17	6	-11	150	26	-124	200	80
26	-	16	- Repayments	3	-	-3	22	18	-4	29	29
41	-	26	- Charges	4	-	4	31	26	-5	41	41
2	-	-	Front-end fee capitalized	13	11	-2	116	68	-48	155	120
31,984		29,254	Undisbursed Loans					31,771		35,906	36,405
			5. KEY RATIOS								
			Statutory lending limit					55,161			
			- ratio of outstandings to capital					60%			
1.24	1.24	1.26	Interest coverage ratio	1.19	1.17		1.25	1.26		1.18	1.24

Controller's
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RECORD
Senior Management Council

JOINT MEETING OF
MANAGING COMMITTEE AND SENIOR MANAGEMENT COUNCIL

April 26, 1983

Agenda for Monday May 2 Meeting at 10:00 a.m.
in Room E-1227

1. Monthly Financial Report
** Financial Report for March 1983.

2. IDA 7 Strategy, Andre de Lattre, Percy Mistry.
*** Memo (Qureshi) April 14, 1983 FIS/MC83-28: IDA7: Strategy, Tactics and Action Plan.

3. Principles of Staff Employment, R. Clarke
*** Paper (COM) April 20, 1983 (PAD/MC83-20) PAD/SMC83-04: Principles of Staff Employment with attachments.

4. Other Business

** To be distributed.
*** Previously distributed to Managing Committee members.

OFFICE MEMORANDUM

RECORD
Senior Management Council

CONFIDENTIAL

DATE: April 14, 1983

FIS/MC83-28

TO: The Managing Committee

FROM: Moeen A. Qureshi MAQ

att 4/26

EXTENSION: 73665

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WBG ARCHIVES

SUBJECT: IDA7: Strategy, Tactics and Action Plan

1. Following meetings of the Managing Committee on Friday, March 25, 1983 (when we discussed our strategy for IDA7) and on Monday, April 4, 1983 (when Messrs. Mistry and Wood reported on the Copenhagen meeting of Deputies), we felt that a specific action plan should be drawn up on how we proposed to proceed. This is done below.

Strategy for IDA7

2. Simply put, our strategy for IDA7 is to develop donor consensus around a figure of \$16 billion as the minimum level of resources required by the Association to address the urgent needs of recipients. We propose to do this in four phases which will be undertaken, to the extent possible, in parallel:

(1) Establish firm consensus and support for this figure among a core group of committed IDA supporters comprising specifically: The Netherlands, Italy, Canada; the Nordic Group; the Arab Group; smaller Part I donor countries such as Belgium, Austria, Luxembourg, Australia, New Zealand, Ireland; and the Part II donors.

(2) Work separately on Japan by exerting our best efforts to have resolved, "in principle" within G-6, the question of Japan's relative shareholding in the IBRD and proceeding as expeditiously as possible with the first stage of a Selective Capital Increase to meet Japan's concern. In doing so we would seek as a minimum a clear understanding from the Japanese authorities that: (a) they would support an IDA7 of \$16 billion and (b) they would maintain their present share of around 15% of the total amount. Indeed Japan should be urged to make a voluntary contribution to IDA7 over and above its 15% share as a special gesture of support for IDA.

(3) Extend and broaden the support base for a \$16 billion IDA7 among the three other major donors Germany, France, the U.K.; seeking at the same time to ensure that: (a) Germany is willing to maintain its share of 12.5% of the total; (b) France will increase its share to around 7%; and (c) the U.K. will agree not to seek a reduction below the 7.6% share agreed to as the basis for calls in the early years of drawdown under IDA6. This phase can be worked on in parallel with phase (1) above but can only be completed after a solid core of "middle country" support for IDA7 has been formed.

In all of these three phases, we would use every available means at our disposal, including direct bilateral representation, carefully orchestrated media efforts and the EEC mechanism. We would also orchestrate a campaign of LDC representation, at the head-of-state level, to the major European and Arab donors as well as to Japan (similar to the campaign we launched between February and April 1982) to help bring about a donor consensus on IDA7. The objective of these three phases would be to bring about the effective isolation of the U.S. as the only donor "out-of-sync" with the $16 billion figure. While we would be working on the U.S. right from the outset, our ability to effect any real policy changes in the present U.S. position on IDA7 (i.e. $750 million per annum with a share of 25%) will be substantially strengthened when we have all the other donors on board. Hence the fourth phase of our strategy will be:

(4) Exert maximum pressure on the U.S. Administration (and to the extent possible on Congress) at around the time of the Annual Meetings to accept a figure of $16 billion for the FY85-87 period with a 25% share (i.e. the U.S. would need to appropriate about $1,350 million annually between FY85-87). This pressure would be built up between now and September and we would exert it through:

(a) the diplomatic efforts of other donors;

(b) the diplomatic representations of all recipient and non-recipient Part II countries;

(c) other international/multinational fora such as the Development Committee, Williamsburg, UNCTAD, meetings of G-6 and G-10, etc.;

(d) domestic "pro-IDA" lobby groups including the "aid lobby"; business pressure groups; foundations; etc.

(e) our own direct representations at each appropriate hierarchical level in various departments of the U.S. Administration including: Treasury, State, OMB, the White House, Commerce, as well as through our congressional liaison efforts with key congressmen and senators on all concerned authorization and appropriation committees;

(f) a well orchestrated domestic media campaign to attract direct political support at the grass roots level.

3. Other elements of our strategy concern:

A. Timing : IDA7 would start no later than July 1, 1984 (i.e. start of FY85). It would stretch over a three-year period to June 30, 1987.

B. Terms and Flexibility : We would seek to unburden the IDA7 Resolution of the pro-rata rules and strictures of IDA6; and

: to accommodate possible slippage in the U.S. completion of IDA6 into FY85, we might need to incoporate staggered arrangements permitting the U.S. to catch up on IDA7 in FY86 and FY87.

C. Completing IDA6 in FY84: Item B notwithstanding, we would attempt to bring maximum donor pressure to bear on the U.S. to complete IDA6 in FY84 and start IDA7 in FY85 with a clean slate.

4. At this juncture, we should not engage in either bilateral or multilateral discussions suggesting that the IDA7 amount could be settled at a figure below $16 billion. Nor should we engage in discussions on fallback positions in the event that U.S. defaults on its FY83 and/or FY84 payments to IDA6 resulting in its being stretched out to FY85. Regardless of the outcome of the remaining U.S. IDA6 appropriations, our public posture would be to press ahead with concluding IDA7 negotiations and accommodating U.S. slippages in the framework of IDA7 rather than go through another year funded by Special Contributions.

Contingency Planning

5. At this point we would devote all our energies to pursuing the strategy outlined above. But amongst ourselves we need to be aware of what our options might be in the event that: (a) the U.S. does not complete its IDA6 contributions in FY84; and (b) despite our efforts we, and the other donors, are unable to shake the U.S. loose from its present IDA7 policy. Essentially our options are:

(1) to delay finalizing IDA7 and go for a bridging arrangement for FY85 similar to the FY84 Special Contributions scheme;

(2) an advance contribution arrangement under the framework of a negotiated IDA7;

(3) settling for a smaller IDA7 in the $9-12 billion range;

(4) option (3) plus Special Contributions from other donors outside the IDA replenishment framework to capture the maximum budgetary contributions that other donors might be willing to provide;

(5) option (3) or option (4) plus borrowings for IDA7 from Germany, Japan, (possibly Switzerland), the Netherlands and other donors.

It would be premature to attempt assessing which of these options would be the best one to pursue at the present time. Much will depend on the political positions taken by other donors at the time of the Annual Meetings. We will need to take these positions into account in assessing, at that time, which of these options offers us the maximum flexibility in the short and long run to mobilize the largest amount we can get for IDA7. I suggest, therefore, that we review our strategy again in September and decide then what approach we should take in order to put in place a safety net for FY85, if things do not go the way we would hope for.

Tactics

6. In the foregoing paragraphs, we have alluded broadly to the type of tactics we would employ to gain our basic objective. Our tactical time horizon for pursuing this strategy extends upto the 1983 Annual Meetings. Between now and then, we have highlighted the following major events for which we would gear up our efforts:

(1) The President's European Tour between April 12-22 during which he would seek support for the above-mentioned strategic objectives at political and administrative levels in the U.K., the Netherlands, Germany and Italy.

(2) The Development Committee Meeting scheduled for April 28-29, the agenda for which included IDA6 and IDA7 issues; we would exert maximum efforts during this meeting (in the plenary itself; during Ministerial meetings; and in private meetings between Bank officials and delegates attending) to press for our objectives.

(3) The Williamsburg Summit (May 26-30) - at which we would attempt to elevate IDA6/IDA7 issues for discussions at summit level. We would: exert maximum efforts during Mr. Clausen's European visits; in discussions between Bank officials and the "sherpas"; and in high-level bilateral contacts; to get IDA6/IDA7 issues placed on the Williamsburg agenda and try to get the summitteers to press President Reagan hard on IDA6/IDA7.

(4) UNCTAD VI scheduled in June 1983, would, we envisage, provide another opportunity for the President and other Bank officials to seek support from donor as well as recipient government representatives on our strategic objectives.

(5) The Tokyo Meeting of IDA Deputies scheduled for July 19-21, would deal specifically with the subject of IDA7 volume requirements. For this meeting, we would circulate to Deputies a specific paper dealing in depth with the justification for $16 billion for FY85-87. This paper, which would be jointly prepared by OPS and ERS, would be finalized in time for circulation to the Deputies by May 30, 1983 at the latest. Its issuance would be followed by an intensive round of bilateral visits to all major donor countries by Mr. de Lattre and other Bank staff during which we would attempt to organize and orchestrate maximum support for the $16 billion level in all donor countries other than the U.S. With this meeting, we would hope to have isolated the U.S. from all other donors in terms of its willingness to bear an appropriate share.

(6) The five events listed above should enable us to bring to a head the issues impeding IDA7 negotiations at the 1983 Annual Meetings in September. At that point, we would attempt to obtain global political support for an IDA7 of $16 billion and to apply maximum

pressure on the U.S. to join other donors in a common position so that IDA7 negotiations can progress toward a satisfactory formal conclusion by the end of 1983 at the latest, i.e. in time to become effective for July 1, 1984. Between the Tokyo meeting of Deputies and the Annual Meetings, a second round of bilateral visits to major donors would be undertaken, coupled with intensive lobbying efforts with the U.S. Administration and legislature in order to influence the outcome of the FY85 U.S. Budget to accommodate much larger appropriations for FY85-87 than the present budget anticipates.

Action Plan

7. The implementation of our strategic and tactical plans will require a well-coordinated and intensive effort on the part of key staff and senior managers in all major organizational units in the Bank. The overall effort will be coordinated by me with the assistance of Mr. de Lattre and Mr. Mistry. Our prospects for success will be considerably enhanced by the active support of other members of the Managing Committee and the respective organizational units reporting to them over the next few months. The types of activities to be undertaken in promoting the interests of IDA7 will, wherever possible, be integrated with the existing plans of selected senior managers and designated staff for travel and bilateral discussions. The principal actions (and attendant schedules and responsibilities) for which institution-wide involvement will be needed and for which I would appreciate your support are spelt out in the accompanying attachment.

Attachment

IDA7: ACTION PLAN

Actions	Execution/Responsibility	Duration/Completion
1. Urge "Summit Leaders" to raise IDA6/7 issues at Williamsburg	EXC/Mr. Clausen	March (Canada) April 12-22
2. Urge U.S. Administration officials to redouble efforts for $245 million supplemental in FY83	EXC/Mr. Clausen	April/May (ongoing)
3. Urge Congressional leaders/members to support IDA6 supplemental legislation	EXC/Mr. Clausen; IPA/ Mr. Stanton; Congressional liaison staff and other selected senior Bank staff	April/May (ongoing)
4. Seek high level Administration support for a change in U.S. IDA7 policy to support larger IDA	Messrs. Clausen/Qureshi/Stern/ de Lattre and other selected M.C. members of senior Management Council	April onwards
5. Seek Ministerial support at Development Committee and bilateral discussions from donors on $16 B IDA7	Messrs. Clausen/Qureshi, Stern, Benjenk, de Lattre, External Relations and other M.C. members	April 28/29 (Dev. Com.)
6. Urge Williamsburg "sherpas" to include IDA6/7 in Summit Agenda	Mr. de Lattre, selected managers and staff from SVPFI/IAD/SVPOP/ERS	April-May 15
7. Prepare paper making a detailed, well-substantiated case on economic/operational grounds for a $16 B IDA7	Mr. Stern/Mrs. Krueger	May 27 (distribution to Deputies) May 16 (M.C. discussion) May 12 (circulation to MC)
8. Bilateral discussions with major donors on IDA7 volume and on progress of negotiations	Mr. Qureshi, Mr. de Lattre and members of IDA Working Group	June 1-July 18

ATTACHMENT

Actions	Responsibility	Execution/Completion
9. Urge LDC heads-of-state; ministers of finance and ministers of foreign affairs to communicate with their counterparts before Williamsburg in key donor countries (i.e. G-6 + Canada, Italy, Arab Group, Nordic Group, Australia, Holland) and express their concerns about IDA6/IDA7	SVPFI/SVPOP/SEC/RVP's	April-May 18
10. Orchestrate media campaign to highlight IDA6/IDA7 issues in major donor and major recipient countries. This should be done before Development Committee meeting, through to Williamsburg and repeat from time of UNCTAD VI thru to Annual Meetings	Mr. Benjenk/Mr. Vogl with particpation of selected staff from Operations, Finance, and ERS	April-September
11. Coordinate efforts on part of selected senior Bank staff to promote IDA6/7 in the course of regular travel to donor or recipient capitals	Selected senior staff from major organizational units in the Bank; to coordinate/ report on discussions to SVPFI	April-September
12. Mount intensive lobbying campaign for IDA6/7 during UNCTAD VI	Mr. Clausen, Mr. Benjenk, and selected IRD managers and staff	June 1-30

* A more detailed work program outlining principal features, events (i.e. lunches, dinners, speeches, seminars, press conferences, etc.) and participants in the media campaign should be prepared by IPA and circulated to the MC for information by May 2, 1983.

Vice Presidents should request senior staff in their respective organizational units to let SVPFI and IPA know of the possibility of including in their regular travel plans between now and September, attendance/ participation in special events to promote IDA6/IDA7.

Record Removal Notice

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File Title	Barcode No.
Senior Management Council - Memos - Correspondence 08	1773318

Document Date	Document Type
N/A	Report with attached paper

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Subject / Title
Principles of Staff Employment

Exception(s)
Corporate Administrative Matters

Additional Comments

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

Withdrawn by	Date
Shiri Alon	16-Feb-17