Folder Title:	Moeen Qureshi Files - Presidential Chronological Correspondence - February 11 - 27, 1981
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M. QURESHI'S
PRESIDENTIAL CHRON

February 11 - 27, 1981

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

February 27, 1981

Mr. McNamara,

For your information.

Moeen A. Qureshi

cc: Mr. Paijmans

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi

DATE: February 27, 1981

FROM: C. Ardalan

SUBJECT: Mr. Clausen - Meeting with Mr. Watanabe

CONFIDENTIAL

I had a call from Mr. Nozaki of the Tokyo Office last night. Mr. Clausen met with Japan's Minister of Finance, Mr. Watanabe, on February 13. Apparently, during his discussions, Mr. Watanabe raised two specific issues relating to the World Bank. First, Mr. Watanabe indicated that he was keen that Japan should increase its share in the Bank's capital. He felt this was necessary in recognition of Japan's past and hopefully future support of the Bank. There was no specific mention of the size of the increase that Japan was seeking. Second, Mr. Watanabe indicated that there was a need to increase the representation of Japanese staff in the World Bank, particularly at more senior levels.

FORM NO. 1599
(8-80)

THE WORLD BANK

ROUTING SLIP	DATE 3/9/81

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Mr. Vergin	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

Mr. McNamara has seen this and, as I understand it, is of the view that you should proceed to prepare the core budget and the two associated supplements on this basis.

Attachment

FROM

Ernest Stern

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (Through Messrs. M. A. Qureshi and E. Stern)

DATE: February 24, 1981

FROM: K. Georg Gabriel

SUBJECT: FY82 Work Programs and Budgets--Overprogramming for China Lending and Expanded Energy Lending

1. In the Finance Committee discussions on the FY82 planning assumptions, work program and budgets, you asked PAB to proceed with the formulation of two supplementary work programs and budgets which, pending resolution of the financing issues relating to the proposed expanded lending program, would provide for overprogramming in the Bank's FY82 work program in order to launch the China lending program and a "satisfactory" energy lending program. It was agreed that both of these work programs and budgets would be additional to the 5% real budget growth which would be required to implement the currently programmed IBRD/IDA lending.

2. This memorandum presents these supplemental work programs and budgets.

3. In summary, the China program requires the addition of 26 professional positions. Its incremental cost of $5.4 million would add an additional 1.3 percentage points to real budget growth in FY82. Implementation of the "satisfactory" energy program which exceeds the currently programmed energy lending by $0.9 billion (35%) and $1.2 billion (42%) in FY82 and FY83, respectively, requires the addition of 105 professional positions. The incremental cost of $11.6 million would add an additional 2.9 percentage points to real budget growth. Overall the addition of these two programs will raise total budget growth from 5% required for implementation of the currently programmed IBRD/IDA lending to about 9.2%.

4. Given the downside risk which attaches to the financing plan that supports currently programmed IBRD/IDA lending, we are concerned that several influential shareholders will not support this proposed overprogramming. Pending detailed consultation with the Board in the course of June, we consider it therefore important that Board approval for these additional FY82 budget resources not be taken for granted. Accordingly, we do not think that it would be prudent to authorize any advance recruitment against the positions which would be funded by these budget supplements.

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China Work Program and Budget

5. The following table summarizes the increases over the FY81 China budget that will be required in FY82 to launch the China lending program set out in the paper on the Expanded Lending Program of December 18, 1980.

FY81 Base FY81$000		FY82 Recommended Increase Over FY81 Base (FY81$000)	Positions Prof.	Positions Sec.	Consultant SYs	Remarks
2990	Operations	3,360	21 b/	10	5	-Key work program assumptions are in para 6.
-	DPS	100	-	-	-	-Chinese edition of WDR IV.
480	ED's Office	120	-	-		-Full-year cost of FY81 allocation.
180	Ext. Relations	400	2	1		-Mainly for EDI & publication of Annual Report in Chinese.
190	Legal	150	1	1		-Additional to the two lawyers/1 secretary provided in the FY81 allocation.
25	AOP	250	2	1		-ADM translation and interpreter services, and travel budget for PMD recruitment.
	AOP Overhead	780	-	-		-Increased cost of space and other overhead.
155	Secretary's	100	-	1		-Full-year cost of the FY81 allocation and 1 additional secretary.
80 a/	Other Depts.	95	-	-		-Contingency at 1% consistent with contingency provision in total IBRD/IDA budget.
4,100		5,355	26	14	5	

a/ Unallocated as of Jan. 30, 1981: requests are in process for EDI ($30,000) and ADM ($50,000).

b/ Preliminary distribution: Region - 13 prof., 6 sec., 4 consultants.
COPDs - 8 prof., 4 sec., 1 consultants.

6. The key operating assumptions underlying the FY82 work programs are:

a. Lending

	Commit- ments a/ ($000)	No. of Projects b/	Average Size ($000)	Coefficients SW/Projects c/	Resource Investment in Pipeline at end FY82
FY82	600	3	200	196	100%
FY83	1000	4	250	170	60%
FY84	1800	8	225	150	30%
FY85	2500	10	250	135	11%

b. Economic and Sector Work

East Asia & Pacific - 13.5 SY

CPS: TWT - 0.6 SY
EGY - 0.5 SY
IPD - 1.9 SY
PHN - 1.0 SY
Total CPS - 4.0 SY

c. Supervision

Two projects for a total of 55 SW in FY82.

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a/ Preliminary estimate of IBRD/IDA commitments to China as per paper on Possible Expansion of IBRD/IDA Lending, FY82-86 dated 12/18/80.

b/ The number of operations for FY83 to FY85 are notional.

c/ Projects are priced as follows: For FY82, at the level of the Indonesia experience plus a 40% allowance for limited experience with project lending in China (as in the FY81 budget supplement for China - September 1980); in subsequent years, cost is assumed to decline on a graduated basis to the level of the FY78-80 India experience with large projects, i.e. projects $100 million or more.

The $5.4 million incremental cost of this program would result in an additional 1.3% increase in the FY82 Administrative Expense Budget bringing the total budget to 6.3% above the FY81 Budget.

"Satisfactory" Energy Work Program and Budget

7. As requested by you, a "satisfactory" energy program equivalent to 93% and 82% of the desirable program in FY82 and FY83 respectively 1/ has been formulated by the Energy Department in consultation with IPD, AGR and the Regional Offices and costed by PAB on the basis of historical coefficients. Attachment 1 compares the current program to the satisfactory program and the desirable program presented in the Report on Energy in the Developing Countries (Report No. 3076, dated July 11, 1980). Table 1 below compares the number of operations scheduled for FY82 and FY83 with FY82 staffing required for all operational work in connection with the current and the satisfactory programs. Attachment 3 shows how the total staff required for FY82 energy lending work would be deployed to work on the projects in the alternative FY82-85 energy lending programs.

Table 1
FY82 WORK PROGRAM

Organizational Unit	No. of FY82-83 Lending Operations		No. of Staff for Lending, Supervision & Sector Work	
	Current Program	Satisfactory Program	Current Program	Satisfactory Program
Energy Department				
Oil & Gas				
Pre-development	20	30	-	-
Development	21	28	-	-
Sub-total	41	58	71	108
Industrial Projects				
Coal	4	13	-	-
Coal Promotion	-	8	-	-
Refining & Retrofitting	5	8	-	-
Alcohol	2	4	-	-
Sub-total	11	33	26	53
Regional Offices				
Fuelwood				
Free-standing	6	10	12	21
Component	20	24	8	9
Power	43	47	52	60
Support to COPDs	-	-	11	20
Sub-total	69	81	83	110
TOTAL	121	172 (+42%)	180 2/	271 3/(+51%)

1/ The FY82 program translates into 75% of the difference between currently programmed and the desirable program. The FY83 program translates into 57% of the difference between currently programmed and the desirable program.
2/ Includes 16.6 staffyears for supervision, and 30.8 staffyears for sector work.
3/ Includes 20.9 staffyears for supervision and 42.3 staffyears for sector work.

8. The lending program is based on coefficients also used in budgeting the current program, with allowance for differences between pre-development and development projects. Attachment 2 shows the detail.

9. PAB estimates FY82 costs of implementing this additional program at about $15.6 million, representing funds for 105 professional positions, 65 non-professional positions and 17 consultant staffyears. In view of the recruitment delays, we expect that only about 75% of this increment, or $11.6 million, will need to be authorized in FY82. Table 2 below shows a tentative allocation of the increment among various organization units.

Table 2
FY82 ADMINISTRATIVE BUDGET

Organization Unit	No. of Positions Prof.	No. of Positions Nonprof.	Consultant SYs	Administrative Budgets in $m: Full Year Costs	Administrative Budgets in $m: Recommended Authorization at 75% of Prog.
Operating Staff					
Regional Offices	27	16	2	-	
Energy Department	37	22	7	-	
Industrial Proj.	27	15	8	-	
Sub-total	91	53	17	12.7	9.5
Non-operating Staff					
Legal	2	1			
Financial	3	3			
Administrative	3	6			
Other Areas	6	2			
Sub-total	14	12	-	2.7	2.0
Contingency at 1% of required expenditures consistent with total IBRD/IDA budget.				0.2	0.1
IBRD/IDA TOTAL	105	65	17	15.6	11.6

The recommended increase of $11.6 million amounts to an addition of 2.9% to the FY82 Budget. Combined with 5% volume growth for implementation of currently programmed FY82-86 IBRD/IDA lending and an additional 1.3% for putting in place the China program this will result in a volume growth of about 9.2% over the FY81 Budget.

10. The main work program and budget issue raised by the Energy Department relates to the timing of staff recruitment. If advance recruitment cannot be authorized, it is unlikely that the recruitment of the requisite staff will proceed with the pace which will generate a fill ratio of about 97% in line with the Bankwide average. Allowing for an even larger number of positions to compensate for the lower fill ratio clearly cannot be the answer. Accordingly, the incremental dollar budget has been determined on the basis of a 75% fill ratio and on the assumption that a shortfall in staffyears will have to be accepted. Given the experience of FY80 and FY81 a shortfall in EGY and IPD staffyears need not necessarily translate into a shortfall in the Bankwide multi-sectoral energy lending program.

Attachment 1

DESIRABLE AND SATISFACTORY WORLD BANK ENERGY LENDING PROGRAMS, FY82-83
(Amounts in $ Million)

	FY82			FY83			FY82-83		
	Current Program	Satisfactory Program	Desirable Program	Current Program	Satisfactory Program	Desirable Program	Current Program	Satisfactory Program	Desirable Program
Oil & Gas	822	1,127	1,055	621	1,350	1,600	1,443	2,477	2,655
Coal	20	385	140	273	353	550	293	738	690
Alcohol	-	25	35	15	50	60	15	75	95
Refineries	-	70	150	250	225	200	250	295	350
Retrofitting	50	110	200	115	175	300	165	285	500
Fuelwood	42	156	200	123	224	200	165	380	400
Power	1636	1,597	1,970	1443	1,663	2,040	3079	3,260	4,010
Total	2,570 a/	3,470	3,750	2,840 a/	4,040	4,951 a/	5,410	7,510	8,700
Increase over Current Program		900			1,200			2,100	

a/ As shown in the Report on Energy in Developing Countries (Report No. 3076, dated July 11, 1980)

Attachment 2

ENERGY SECTOR: MANPOWER APPLICATIONS AND SOURCES

	EGY				IPD		Power		Fuelwood		Regional Support		Total		
	FY80 Actual	FY81 Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	FY82 Curr. Prog.	FY82 Satis. Prog.	Increment
Manpower Applied to:															
Lending	31.4	36.0	40.8	68.4	21.7	49.0	37.6	43.5	14.0	22.4	-	-	114.1	183.3	69.2
Supervision	5.1	6.8	13.9	16.1	0.5	1.4	2.2	2.6	-	0.8	-	-	16.6	20.9	4.3
Econ. & Sector Work	1.8	2.0	4.5	7.7	1.2	3.1	3.7	4.4	1.2	1.7	-	-	10.6	16.9	6.3
Other Output	10.6	18.3	18.3	22.3	0.9	2.0	-	-	1.0	1.0	-	-	20.2	25.3	5.1
Subtotal	48.9	63.1	77.5	114.5	24.3	55.5	43.5	50.5	16.2	25.9	-	-	161.5	246.4	84.9
Support to:															
CPS/COPDs	-	-	-	-	-	-	-	-	-	-	8.3	14.7	8.3	14.7	6.4
Regions	1.9	1.4	1.8	1.8	-	-	-	-	-	-	-	-	1.8	1.8	-
MAA	4.3	4.5	5.8	9.0	2.7	5.1	6.5	7.7	2.2	2.2	0.8	1.5	18.0	25.5	7.5
Overhead	7.9	12.2	14.4	22.2	5.2	10.8	10.4	12.2	3.9	6.1	2.4	4.3	36.3	55.6	19.3
Total Staffyears	63.0	81.2	99.5	147.5	32.2	71.4	60.4	70.4	22.3	34.2	11.5	20.5	225.9	344.0	118.1
Manpower Sources:															
Recorded Prof. SY	40.7	57.9	68.1	104.2	24.9	51.9	50.1	58.2	18.9	29.2	10.8	19.2	172.8	262.7	89.9
Unpaid Overtime	5.4	3.5	4.8	7.2	1.3	2.6	3.4	4.1	1.1	1.7	0.7	1.3	11.3	16.9	5.6
Consultants	10.3	13.6	18.5	24.7	3.0	10.8	6.9	8.1	2.3	3.3	-	-	30.7	46.9	16.2
IFAD (incl. Cons.)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support from:															
CPS/COPDs	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regions	4.9	4.3	6.2	9.5	2.1	5.2	-	-	-	-	-	-	8.3	14.7	6.4
Coop. Programs	-	0.4	0.4	0.4	-	-	-	-	-	-	-	-	0.4	0.4	-
Others (YP, etc)	1.0	1.5	1.5	1.5	0.9	0.9	-	-	-	-	-	-	2.4	2.4	-
Total Staffyears	63.0	81.2	99.5	147.5	32.2	71.4	59.4	70.4	22.3	34.2	11.5	20.5	224.9	344.0	118.1
Prof. Positions	48	62	71	108	26	53	52	60	20	30	11	20	179	271	91
Asst. Level Positions	3	5	5	8	1	2	4	5	1	1	-	1	11	17	5
Secretarial Positions	25	34	39	58	13	27	27	31	10	15	5	10	94	141	48
No. of Operations:															
Regular	-	12	17	26	2	14	22	23	1	6	-	-	42	69	27
Component	-	-	-	-	-	-	-	-	10	13	-	-	10	13	3
Supplementary	-	-	6	6	-	-	-	-	-	-	-	-	6	6	-

Attachment 3

DEPLOYMENT OF FY82 LENDING WORK

Staffyears required to work on projects scheduled for Board approval in:

	FY82	FY83	FY84	FY85 and beyond	Total
1. Current Program					
Energy	35.2	5.6	-	-	40.8
Industry	3.3	12.2	3.8	2.4	21.7
Power	15.2	10.8	9.9	1.7	37.6
Fuelwood	7.5	2.9	3.6	-	14.0
Total	61.2	31.5	17.3	4.1	114.1
2. Satisfactory Program					
Energy	48.4	17.4	2.6	-	68.4
Industry	19.5	17.2	7.5	4.8	49.0
Power	15.9	12.4	13.0	2.2	43.5
Fuelwood	11.0	6.0	5.4	-	22.4
Total	94.8	53.0	28.5	7.0	183.3
3. Increase Over the Current Program	33.6	21.5	11.2	2.9	69.2

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

February 24, 1981

Mr. Qureshi:

Attached is the memorandum on the FY82 budgetary requirements for China lending and the satisfactory energy lending program. Mr. Stern has been consulted in the preparation of this memorandum and has cleared this final version.

Heinz Vergin

Attachment

February 26, 1981

Mr. Qureshi:

Re: Budget Required for China Lending Work and Work on Expanded Energy Lending Program

To clarify the relationship between the number of energy lending operations in the current and in the satisfactory program and the staff required for energy lending work in FY82, we would propose:

1) to amend page 4, Table 1 of our memorandum so that it shows the sum of energy lending operations for FY82 as well as FY83. Work on energy projects scheduled for Board approval in FY82 and FY83 accounts for 80% of the total FY82 energy lending work. Our earlier version of Table 1 was not very convincing because it related the number of FY82 lending operations to staff required for FY82 work on the entire FY82-85 program including lending work, supervision work and sector work. Footnotes have now been added to clarify the requirements of supervision and sector work under both energy programs.

2) To add Attachment 3 which shows year by year how the staffyears required for FY82 energy lending work would be deployed to work on the projects in the alternative FY82-85 energy lending programs.

The amended Table 1 and the new Attachment 3 are attached.

Heinz Vergin

Attachments

FEB 27 1981

Dear Governor,

I wish to express my warm appreciation for your Government's approval of an advance contribution to the Sixth Replenishment of IDA in the amount of 89,446,666 Finnish markkas.

As you are aware, the conditions required for effectiveness of the advance contribution scheme (as set out in Resolution No. IDA 80-8) have been satisfied and, as a result of the action taken by your Government and that of 16 other donors, the Association is currently making credit commitments to the poorest developing countries against resources of more than $1.7 billion provided under this resolution.

Sincerely,

(Signed) ... S. McNamara

Robert S. McNamara

Her Excellency
Mrs. Pirkko Tyolajarvi
Minister in the Ministry
of Finance
Snellmaninkatu 1-A
SF-00170 Helsinki 17,
Finland

cc. Mr. Hans Lundstrom
Executive Director

bcc. Messrs. Qureshi, Wood, Applegarth, Ardalan

PDeSantis:es PDS

February 25, 1981

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 25, 1981

FROM: Moeen A. Qureshi MAQ

SUBJECT: Energy Affiliate: Draft Board Paper

Attached is a draft Board paper on the Energy Affiliate. While it needs considerable further work and polishing, I would like to get your comments and guidance on it before your departure so that a revised version can be ready by the time of your return. I am also circulating it to the other members of the Finance Committee.

cc: Messrs. Stern
Golsong
Rotberg
Thahane
Wood
Rovani/Bourcier
Applegarth/Lonaeus
Vibert

MAQureshi:gmb

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: ENERGY AFFILIATE - BASIS FOR NEGOTIATION

SECTION I. INTRODUCTION

1. In August 1980 the Executive Directors discussed the paper entitled, 'Energy in the Developing Countries'.1/ They endorsed the recommendation that the Bank should explore the establishment of an Energy Affiliate of the Bank to provide additional financing to promote energy self-sufficiency in the developing countries. Since then, informal consultations have been held with interested governments on various approaches to the formation of an Affiliate. This report has been prepared for consideration by the Executive Directors in the light of these consultations.

2. The Proposal for an Affiliate. Developing countries face an acute problem in adjusting to high cost energy. Their current levels of energy use are low, but have to rise rapidly if momentum in their development process is to be maintained. Their current consumption of energy amounts to 16.7 million barrels per day of oil equivalent (mbdoe) and is expected to rise to 30.6 mbdoe by 1990, even to achieve modest growth objectives. In the short run, the strains of the adjustment process show particularly in the balance of payments of oil importing developing countries. The import bills for oil amounted to $50 billion in 1980 and accounted for about 40% of the export earnings of countries such as Brazil and India. For the longer run, the adjustment process is not simply a balance of payments problem but a much broader process of reorienting development strategies.

1/ Report No. 3076, dated July 11, 1980

3. The key elements in this longer run adjustment process include:

- a strategy for energy development and energy use integrated into a country's overall planning framework and development objectives;
- a vigorous program of import substitution by developing all possible indigenous sources of energy including hydropower, coal and fuelwood, as well as the exploitation of any domestic oil and gas potential;
- a massive investment and savings effort to finance this increase in domestic energy production (average annual investments of around $40 billion will be needed between now and 1985 and more than $50 billion a year between 1986 to 1990);
- major conservation efforts including appropriate pricing policies and measures to increase energy efficiency.

4. The international community has an important role to play in helping developing countries to carry out this adjustment process. Even with the incentives provided by pricing policies adjusted to reflect market scarcities and even with a maximum effort to mobilize additional domestic resources, self-help will need to be supplemented by external assistance. All forms of capital will be needed. In some areas, private capital, including private direct investment, will play a central role. Official bilateral and official multilateral assistance will also be needed. The major sources of such capital are the industrialized countries

and the capital surplus developing countries. Both have a vital interest in measures to stimulate the flow of capital into energy investments so as to:

- improve the balance of supply and demand in international energy markets, which is in the interests of oil producers as well as oil importers;
- support the efforts of oil importing countries to undertake the structural adjustments needed to resolve their balance of payments difficulties on a sustainable basis and avoid dislocation in international capital movements;
- achieve early restoration of growth in developing countries and provide an important stimulus to more buoyant world-trading conditions.

5. The World Bank has increased its emphasis on lending for energy. It cannot carry this process further without significantly weakening its support in other key areas of the development process, such as in agriculture. An additional program of investments in energy that has been identified cannot be carried out within the present capital constraints of the World Bank.

6. The creation of an Energy Affiliate of the Bank has been proposed as a means of mobilizing additional resources for mounting the expanded

program of energy investments. It can help the adjustment process described above

- by serving as a vehicle for an integrated approach to the reordering of development priorities;
- by carrying out a broad-based program of investments to promote the switch to indigenous sources of energy;
- by helping mobilize finance from all sources to assist sector investment needs as well as meeting part of them itself.

7. This program can be achieved at a minimum cost in terms of budget outlays and without creating an extensive new bureaucracy. The following sections of this paper describe the program to be financed, a financial structure for the Affiliate and a form of organization. The need to start negotiations on the formation of such an Affiliate is urgent.

8. The purpose of this report is to establish a basis for the start of negotiations on establishing the Affiliate. To this end, this report outlines, in a very preliminary fashion, the main features of an Affiliate around which negotiations might center and a draft charter be prepared. These suggested features of the Affiliate are likely to change somewhat in the course of further examination and detailed negotiations. Approval of the opening of negotiations would in no way commit individual governments either to the formation of an Affiliate or to participate eventually

in it if one were formed. Negotiations would however, enable a considered judgment to be made as to whether an Affiliate could successfully mobilize additional resources for energy investment in developing countries. If Executive Directors approve the start of negotiations, Governors will be invited to designate representatives for carrying them out.

SECTION II. THE PROGRAM TO BE FINANCED

9. The Scale of the Program. Against the background of the urgent need to expand energy investments in developing countries, the Bank has identified an additional program of investments to be undertaken in energy if the additional financial resources can be found to support it. The program was outlined in the earlier paper, "Energy in the Developing Countries," and more recently the expanded program was extended forward by one year.[1/] Taking account of the extension of the additional program in energy by one year, the desirable program in energy totals $30 billion over FY82-86.[2/]

Operational Program for an Energy Affiliate

	FY82	FY83	FY84	FY85	FY86	FY82-86
No. of Operations	75	80	100	100	100	460
Commitments ($ million)	3,700	4,800	6,600	7,200	8,000	30,300

10. A Catalytic Role. It is roughly estimated that a program of this size will provide (on average) the financing for only about 10% of total investment needs of developing countries in the energy sector. A major objective of the program is to serve as a catalyst to mobilize other financial resources.

1/ "Possible Expansion of IBRD/IDA Lending over Presently Planned Levels," dated November 14, 1980.

2/ About $5 billion of this program is for projects in the poorest countries not able to accept external assistance on the market related terms on which the Affiliate will be able to lend. The question of how to find additional resources for the poorest countries is addressed in Section III below.

11. It is not only the project content of the program that is important from this perspective. The program of sector studies being carried out in some 60 developing countries will help provide a basis for an energy investment program in them and a framework for all potential lenders including foreign private capital.

12. The scope for mobilizing additional external capital is clearly substantial, although the relative emphasis to be placed on private or official sources will depend on the particular subsector involved. Co-financing with official export credit agencies is particularly important in the case of power projects. By contrast, in the case of oil and gas, the participation by private capital will have a much more important role both as a source of needed risk capital and of technological know-how.

13. The precise role of the Affiliate and the most appropriate techniques to be employed in encouraging the maximum participation of private capital in oil and gas projects will vary. In some projects, the mere "presence" of the Affiliate might prove to be sufficient, as for example in a recent case involving the IBRD in Pakistan. But in other cases, lending might be needed to organize the financial package for the infrastructure components of a project, or for the "start-up" phase which, in turn, can lead to private participation in other areas of the project or at a later stage in sector development.

14. There are many situations, even in oil and gas development, where private capital will not flow to a project automatically and the

participation of the Affiliate could be critical for encouraging that flow. This may be because potentially high project returns are offset by the investors' perception of adverse country economic or political risks, or because project prospects are relatively modest and potentially of importance only the domestic market. Nor can private capital address directly such critical issues as overall sector policies, the legislative framework, institutional weaknesses, policies towards pricing and efficiency.

15. The proposed FY82-86 energy program involves a broad-based approach to the sector; while its precise distribution will be subject to change, the table below summarizes its broad features as presently envisaged.

Sector Distribution of Lending ($b)

						FY82-86			
	FY82	FY83	FY84	FY85	FY86	$billion	Percent	No. of Ops.	Percent
Electric Power	2.0	2.0	2.6	3.0	3.3	12.9	43%	135	29%
Oil and Gas									
Pre-Development	0.4	0.6	0.6	0.6	0.7	2.9	10%	120	26%
Development	0.7	1.0	1.6	1.9	2.0	7.2	24%	75	16%
Coal & Coal Gassification	0.1	0.5	0.6	0.5	0.6	2.3	8%	50	11%
Fuelwood & Biomass	0.2	0.3	0.6	0.4	0.5	1.8	6%	50	11%
Refineries & Retrofitting	0.3	0.5	0.7	0.8	0.9	3.2	11%	30	7%
Total	3.7	4.9	6.5	7.2	8.0	30.3	100%	460	100%

16. The comprehensive approach of the proposed energy program reflects the diverse energy situations that exist in developing countries. Some countries have a significant potential in oil and gas development (particularly to meet their domestic needs), while others have a natural resource base in coal or hydropower. In many developing countries, the dependence on scarce fuelwood is a major energy problem. Furthermore, there are important intra-sector "trade-offs" within a country which have to be taken into account in taking investment decisions in the energy sector. A broad approach is necessary not only for settling investment priorities within a sector, but also in order to draw up a coherent set of policies affecting energy end use, such as pricing, subsidies and conservation measures. The major objectives of the key components of the program are outlined below.

17. About 40% of the program is in electric power, although investment on this scale will only meet about 5-6% of investment needs in this area. Involvement in the power sector is crucial for the energy program, since significant opportunities exist for substitution to indigenous sources of energy. About 45% of the power program will be for hydro generation and a further 20% for coal-fired thermal plants. Investment in the power sector is also crucial for addressing pricing and efficiency issues.

18. About one-third of the program is in oil and gas. In the case of predevelopment activities, the volume of lending envisaged is less significant than the number of operations because the program envisages

a major financial contribution from the private sector, often in partnership with the host government. An important part of the predevelopment work in the oil and gas sector will be concerned with exploration promotion designed to increase the availability of new exploration acreage to private industry on reasonable terms. New entrants to international exploration such as medium-sized independents will be important participants in this area of the program. There will also be scope for new modes of involvement such as the technique of the "Letter of Cooperation," which seeks to provide a "presence" at the exploration stage and gives private investors a certain measure of political risk protection. The financing of exploration and appraisal drilling is envisaged in the program only in specific situations where private capital is not attracted.1/ In the case of oil and gas development, willingness to finance the infrastructure component makes it much more attractive for private oil companies to participate in the exploration/development stages.

1/ The concept is to finance predevelopment activities with loan funds rather than risk/equity capital. This has the drawback that, in the event the predevelopment work does not lead to a production project, the country would not be creating a revenue stream out of which it could repay the loan. Instead, it would be faced with repaying the loan out of its overall resources. It would, therefore, seem prudent to keep open the possibility of equity financing by the Affiliate by making appropriate provision in its Charter. Were this option to be exercised, it would be necessary to examine several operational and financial aspects, including the impact of equity operations on the financial structure of the Affiliate and the appropriate mechanism for ensuring adequate diversification in the risks assumed by the Affiliate and adequate return on these investments taken as a whole.

19. About 10% of the program is coal. The coal program is designed to assist in roughly doubling coal output by 1990. Assistance is planned in coal exploration and preinvestment work; about 50% of the proposed program will finance coal mining and handling investments and a further 30% the associated transport infrastructure. All projects are expected to include a training/technical assistance component.

20. The provision in the program for fuelwood and biomass is modest compared to requirements. The fuelwood development program is aimed at the lower income countries of Africa and Asia where wood is still the primary source of energy for the majority of the population. While individual usage is small (the equivalent of less than 0.2 tons of oil equivalent per year) in aggregate terms, the use of fuelwood far outstrips supply and has led to serious deforestation problems. If fuelwood production cannot be expanded rapidly--at an estimated rate of planting of 50 million hectares in the next two decades--projected demand for kerosene and other petroleum products will rise by 10-15% annually, providing additional balance of payments strain on the poorest countries.

21. The program also has provision for involvement in the adaptation of refinery capacity and in industrial retrofitting as an important part of the overall focus on measures to improve energy efficienty and conserve fuel use. Investments in refinery operations will be aimed at improving the configuration of existing refineries, particularly their conversion capacity from fuel oil to light distillates and at ensuring the correct configuration of new investments.

22. Finally, an important dimension of the proposed approach to energy lending will be non-financial. The program of investments is intended to be fully integrated within each borrowing country's development strategy and in line with the Bank Group's overall support for that strategy. This integrated approach will encompass both lending activities and advice on relevent policies. The latter has come to assume a critical importance because energy policies have a major impact on many key aspects of the formulation of a country's development strategy.

Section III. Sources of Finance and Capital Structure

23. The key financial issue in the design of an Energy Affiliate is how to mobilize an additional $30 billion in an environment where many governments that have traditionally been sources of development finance are under intense pressure to minimize increases in budgetary expenditures over the next few years. The most feasible approach, under these circumstances, is for the bulk of the resources mobilized by an Affiliate to take the form of borrowings on market terms. Budgetary expenditures would be minimized by asking governments to support the Affiliate mainly through guarantees (i.e., callable capital) as well as through direct lending on market terms. Cash outlays in the form of paid-in capital would be kept to the absolute minimum.

24. If this basic design concept is accepted, three questions immediately arise: (a) how much capital in total (including both paid-in and callable) is needed in order to assure the Affiliate's capacity to borrow the sums it requires on reasonable terms; (b) what is the minimum volume of paid-in capital needed to achieve an acceptable financial position for the Affiliate in the early years while it is building up its own earnings base; and (c) what arrangements can be made to finance operations in countries which are not creditworthy for borrowings on market terms? Each of these questions may be considered in turn.

Total Capital Requirements

25. The question of total capital requirements has been addressed through consultations with the investment bankers who act as underwriters for IBRD bond

issues. As is well known, the Articles of Agreement for the IBRD limit its loan outstanding to the total of its subscribed capital and retained earnings --a ratio of 1 to 1. There was general agreement among the underwriters that a newly established Affiliate could operate with a substantially higher leverage. The maximum leverage likely to be acceptable to the markets would depend upon the composition of the capital, that is, on the proportion subscribed by countries whose guarantees are highly regarded. If, for example, the great majority of the capital--say 80% or more--were subscribed by the advanced industrial countries, a leverage of 2-1/2 to 1 or even higher could well be acceptable to the markets. The limits of acceptability will, of course, differ from market to market. The long-term fixed rate market in the United States, for instance, would be more conservative on this issue than many other bond markets, and much more cautious than medium-term variable rate lenders such as commercial banks.

26. Approximately $25 billion out of the $30 billion program for FY82-86 would be in countries that are currently regarded as creditworthy for some amount of IBRD lending. (Arrangements for the $5 billion of lending in the "IDA only" countries are considered below.) A total capital of $15 billion would represent a maximum leverage of 1-2/3 to 1, counting the subscriptions of all countries, and a maximum leverage of 2-1/2 to 1, if it is assumed that only two-thirds of total subscriptions (i.e., $10 billion) come from countries whose guarantees are currently regarded as prime security by long-term investors. This is the figure which is proposed as the basis for negotiations. It is admittedly conservative, since the ratios are based on loan commitments rather than on amounts actually

disbursed and outstanding, as is the case for the IBRD. This conservatism may be justified by the fact that the Affiliate would be a new institution, unfamiliar to the markets. Moreover, it seems desirable to seek a capital base that would be clearly adequate to support the lending envisaged for the first five years. A shorter interval would mean that subscribing governments would have to begin considering whether and how to replenish the Affiliate's capital before it had a chance to establish a reasonable operating record. If a $15 billion capital base were to prove to be more than adequate to support a $25 billion lending program, the interval prior to a replenishment decision would simply be longer.

Paid-In Capital Requirements

27. Because the loans committed by the Affiliate will only be disbursed gradually over a period of years, it will take some time for it to build up its own sources of revenue. Paid-in capital is required essentially to provide a source of income in this start-up phase. The figures in the table below show various indicators of the Affiliate's financial position in the initial years on the basis of three alternative assumptions about the volume of paid-in capital: $1.0 billion, $1.5 billion and $2.0 billion. In each case, the capital is assumed to be paid-in over three years. The decision as to which of these scenarios represents the prudent minimum objectives for the Affiliate in the early years is of course a matter of judgment. The recommendation that a figure of $1.5 billion be used as the basis for negotiations reflects the judgment that actual income losses can readily be explained to investors for the first two years, but that thereafter there should be a positive net income which reaches significant proportions no later than the fourth year.

	FY82	FY83	FY84	FY85	FY86
Net Income					
$1.0 billion paid-in	(53)	(36)	(18)	25	73
$1.5 billion paid-in	(49)	(13)	23	79	132
$2.0 billion paid-in	(39)	18	69	136	201
Interest Coverage Ratio					
$1.0 billion paid-in	0.47	0.89	0.97	1.03	1.07
$1.5 billion paid-in	0.54	0.96	1.04	1.10	1.13
$2.0 billion paid-in	0.63	1.06	1.13	1.19	1.21
Debt Service Coverage Ratio					
$1.0 billion paid-in	0.47	0.89	0.97	1.03	1.20
$1.5 billion paid-in	0.54	0.96	1.04	1.10	1.27
$2.0 billion paid-in	0.63	1.06	1.13	1.19	1.36

28. These projections--and the recommendation that a figure of $1.5 billion be used as the basis for negotiations--are based upon a number of assumptions which are listed in detail in Annex 1 (Pro-Forma Financial Projections). First, it is assumed that the Affiliate will have to pay a modest premium--between 25 and 50 basis points, depending on maturity--over the IBRD's own borrowing costs in the initial years. This conforms to the advice given by the IBRD's underwriters, although they were at pains to emphasize that the premium might be higher or lower than this in particular markets and under particular market conditions. The basic reason for expecting a premium is that the Affiliate would not be asseasoned borrower. As the Affiliate establishes itself with investors, the premium would be expected to decline and could disappear altogether.

29. The higher cost of the Affiliate's borrowings is assumed to be passed on in the form of a higher commitment fee (i.e., 1.0% on undisbursed balances rather than 0.75% as in the case of the IBRD). The fact that the higher cost

is passed on through the commitment fee rather than through the lending rate itself minimizes the adverse impact of the higher borrowing costs on the Affiliate's income position in the early years of operations.

30. A third important assumption is that pre-appraisal expenses would be financed through a project preparation facility. In the event loans are subsequently approved by the Affiliate the pre-appraisal expenses would be eligible for refinancing out of the loan. Pre-appraisal expenses would add considerably to the Affiliate's total costs in the early years if they were part of the Affiliate's administration budget. Hence, the assumption that such costs are borne by the borrowers has an important and positive impact on the net income in the early years.

31. The assumptions regarding the level of commitment fee and the handling of pre-appraisal expenses have the effect of minimizing the need for paid-in capital from subscribing countries. It would be possible to economize on such payments still further if a part of the paid-in capital were supplied by the IBRD out of its annual profits. The possibility of IBRD purchases of fully paid shares is taken up (in Section V below) as one possible element in the voting arrangements. This raises two questions of a purely financial nature. One is the question of whether the prospective net income position of the IBRD is such as to provide scope for both appropriate additions to reserves and significant profit transfers. This topic is considered briefly in the memorandum on Possible Means of Financing an Expanded

IBRD/IDA Lending Program (R80-326, dated December 18, 1980, paras. 19-23). A second question is whether transfers to IDA should be reduced or eliminated in order to permit the Bank to provide paid-in capital to the Affiliate on a larger scale.

32. All these questions are potentially controversial. Rather than seek a resolution at this stage, it is proposed that the negotiations commence on the basis that 10% of the subscribed capital would be paid in, that is, $1.5 billion out of a total of $15 billion. Since payments would be made over three years--say $500 million per year--the budgetary implications for subscribing members would, in any event, be modest.

33. Lending to the Poorest Countries. It was mentioned earlier that in the FY82-86 period, some $5.0 billion of energy projects had been identified in countries not creditworthy for IBRD lending (countries receiving assistance only from IDA).

34. Concessional resources set aside for energy lending in IDA current plans are around $0.7 billion for the period FY82-83 (the last two years of the IDA6 replenishment period). In this same period, there are additional unfunded but desirable investments of $0.8 billion. In order to achieve the "desirable" program for FY84-86 (which is the IDA7 replenishment period), there is a need for concessional resources of about $3.4 billion. The central issue in considering expanded energy lending in the poorest countries is how this $4.2 billion is to be financed.

35. An Affiliate could not adopt lower standards of creditworthiness than the IBRD without jeopardizing its own ability to borrow at reasonable cost. It should be emphasized that the problem is only to a minor degree one

of income risk. Even if it were possible to subsidize interest rates on loans to the poorest, the portfolio risk would still cause difficulty.

36. The possibility of insulating feasible projects in non-creditworthy countries using an enclave project technique has been considered. It is quite clear that while enclave financing may well be utilized for some of the oil and gas production projects, such projects are likely to be a very small share of the proposed lending for energy.

37. As mentioned earlier, the lending program of the Affiliate puts a strong emphasis on co-financing. Since the need for additional funds for concessionary lending is apparent, consideration should also be given to implementing the expanded energy program through co-financing with other official sources of concessionary funds. This could be especially critical during the IDA6 period, when it does not appear likely that additional concessional resources will be available.

38. In the final analysis, the question of energy lending to the poorest turns on whether additional concessional resources can be provided. The amount of additional resources required is small in relation to the total program; however, it is crucial for the poorest countries. They cannot attract capital from private lenders; they have no alternative sources of assistance. Within IDA's resources there may be some modest scope for the redirection of assistance to the poorest. A small amount of additional resources for energy lending in "IDA only" countries might become available by substituting energy projects for other types of projects in IDA's current lending plans for these countries. It might also prove feasible to release some IDA resources currently programmed for so-called 'blend' countries through substituting, to the extent feasible, for IDA lending in these countries. The scope for such changes is limited. The only possibility therefore for additional concessionary resources would be if the industrialized countries and the

capital surplus developing countries were to make funds available specifically for this part of the energy program. This could involve the Affiliate in having a separate facility for the purpose. The prspects for such additional assistance are not promising. They should however be further explored in the course of negotiations.

SECTION IV. ORGANIZATION

39. Staffing and Management. Preliminary consultations have indicated divergent views on how the Affiliate should be organized. The need for a link with the Bank is generally accepted but views vary on the precise extent of the link. Two approaches have been discussed informally; under the first approach the Affiliate would be integrated with the Bank, and under the second approach the Affiliate would have a greater degree of autonomy. Under the integrated approach the Affiliate would share the same staff as IBRD, (in the way that IDA shares the same staff as IBRD) and utilize the same staff organization for energy projects work and for lending and support operations, thus ensuring that energy lending would continue to be integrated into the Bank Group's lending program as a whole, as well as with the Bank's general economic and sector work.

40. This integrated approach to staffing could be combined with new management arrangements. These could involve the creation of a senior management position to head the Affiliate, and the creation of several other senior positions (at the level of Department Director) to exercise functional control over different subsectors of energy projects work, over sector policy and lending work and possibly for some support activities.

41. There are important reasons for this integrated approach both for the Affiliate and for the Bank. First, it would facilitate a quick start up of expanded lending operations. For example, it is tentatively estimated that the expansion of the energy lending program could require increases in full-time equivalent staff of 200 in the start up period. Such increases in a single sector of activity are large to recruit and absorb even for an organization of the Bank's size and would be more difficult for an autonomous Affiliate.

42. Not only would an integrated organization facilitate a quick start on expanded lending operations but it would also assist the Affiliate to establish its borrowing capacity rapidly. Investors will look to the Affiliate to apply sound financial and economic criteria to its projects; they will also look to the creditworthiness criteria it applies to borrowing countries. An integrated approach applying the same standards and relying on the same staff assessments could significantly assist the Affiliate in launching its own substantial borrowing program.

43. Secondly, it would reconcile the need to provide a central focus for energy lending with the need to maintain the Bank as an integrated development institution.

44. The World Bank's role as a development institution is to help developing countries, on a country-by-country basis, and in the light of their particular development objectives, to formulate optimal development strategies. The approach to energy issues has a central place in this development dialogue between the Bank and its borrowers. Subjects which have traditionally formed the core of the Bank's dialogue with borrowers--domestic and external resource mobilization, investment priorities, etc.--are all affected by the energy outlook, as are the size and the sector distribution of the Bank's lending program to particular countries. Removing energy from the Bank's dialogue with member countries would seriously weaken the Bank. The Bank needs to be maintained as an integrated development institution in order to carry out its role effectively.

45. Thirdly, it would ensure that the program for energy lending would be framed in the context of a country's general development priorities. The new management arrangements would ensure consistency on overall lending issues.

The integrated staffing arrangements would mean that existing mechanisms would also continue to ensure that in further developing the lending program for the energy sector, full account would be taken of the Bank's general program of support for a country as well as broad economic questions and the considerations affecting other key sectors of development.

46. The Board of Governors and Executive Directors. Although it is proposed that the Affiliate should be integrated with the Bank, nevertheless, it would have its own Board of Governors, in which all powers of the Affiliate would be vested, and its own Board of Executive Directors responsible for the general operations of the Affiliate, as well as exercising such powers as are delegated to them by the Board of Governors.

47. The most efficient system would be for the Governors of IBRD, who are ex officio Governors of IDA, and the IFC, to act also, ex officio, as Governors of the Affiliate. Similarly, the Executive Directors of IBRD, who act, ex officio, as Executive Directors of IDA and the IFC, would also act, ex officio, as Executive Directors of the Affiliate.

48. The Governors, and to the extent of the powers delegated to them, the Executive Directors will decide the overall operational, financial and other policies of the Energy Affiliate. An ex officio system of representation would help assure that the policies of the Energy Affiliate would be fully consistent with the policies of the Bank Group, and the Bank's general approach to development issues.

49. A further consideration is that the composition of shareholdings, the relative importance of sources of direct financial support, and the pattern of voting in the Energy Affiliate may differ substantially from that in IBRD.

These differences (following the precedents in IFC and IDA) can also be accommodated by Governors and Executive Directors of IBRD acting ex officio in the Energy Affiliate. Only if the differences which might arise between voting strength in IBRD and voting strength in the Affiliate would be of such a different order of magnitude would it appear desirable to move from this precedent.

SECTION V. VOTING

50. The Relationship with Capital Subscriptions. The voting structure of the Affiliate should be fully supportive of its market-orientation. It must be consistent with the objective of attracting the support of investors and rapidly establishing a sizable borrowing capacity for the Affiliate in financial markets.

51. While there will be many factors entering into investors' judgment on the quality of the obligations of the Affiliate, an important element affecting investor confidence will be the question of operational "control." This concern relates not only to the identity of shareholders having the major voting power, but also more generally to whether the structure is likely to be conducive to sound financial management. The confidence of investors on this point is likely to affect both the access of the Affiliate to the market and the terms on which finance can be obtained. Investors in capital surplus countries, who may be approached for direct borrowings, will be equally concerned with the security of their investments and the financial soundness of the Affiliate. In this regard, they share identical concerns with the market.

52. Because investors tend to be reassured if the holders of voting control also have a major financial stake in the Affiliate, they are likely to take a keen interest in the nature of the link between the voting system and subscriptions. Subscriptions to capital provide the strongest evidence of commitment to the financial viability of the Affiliate.

53. The connection between subscriptions to the capital of the Affiliate and votes need not and should not be a rigid one. First, it may be fully consistent with the concept of a market-based institution if forms of financial support other than subscriptions to its capital, such as for example,

direct lending to the Affiliate, were recognized in the voting system. Secondly, there are non-financial considerations such as the need to ensure appropriate respresentation for developing countries which can also be introduced into the voting structure while maintaining the market-oriented character of the Affiliate.

Alternative Capital and Voting Structures *

54. Taking into account these and other considerations, individual country subscriptions to the capital of the Affiliate will have to be negotiated. It is hoped that in due course countries will wish to subscribe in line with their current economic and financial strength. To give some indication of the considerations and issues involved, two alternative and purely hypothetical approaches to the capital and voting structure of the Affiliate, involving distinctions between broad groups of countries, are set out below. In practice it would not be desirable to formally embody such distinctions in the voting structure and they are mentioned purely for illustrative purposes.

55. In the first alternative, it is assumed that in recognition of the special weight which bondholders may place on the guarantees of the industrialized countries, the industrialized countries would provide the major part of capital subscriptions and have a majority position in the voting structure. This case would also be consistent with capital surplus developing countries taking up a much larger share in the capital and votes of the Affiliate than they currently have in IBRD. Other developing countries would also be expected to subscribe to the capital of the Affiliate but to a lesser extent and the position of the relatively small and poor developing countries would need to be protected by membership votes.

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* An alternative to this part of the discussion is attached.

Case I: Hypothetical Subscriptions and Voting Power

	Industrial Countries (OECD)	Capital-Surplus a/ Developing Countries	Other Developing Countries	Total
Capital Subscriptions ($b)	9.0	4.2	1.8	15.0
Subscription Votes b/	600	280	120	1,000
Membership Votes c/	20	5	100	125
Total Votes	620	285	220	1,125
% of Total	55%	25%	20%	100%
Memo Items:				
Voting Power				
- IBRD Present Pattern	61%	6%	33%	100%
- IMF Calculated Quotas	69%	10%	21%	100%

a/ As defined in World Development Report 1980 to include: Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Libya, Iran and Iraq.

b/ The total number of subscription votes is set arbitrarily at 1,000 for all the illustrations to facilitate comparisons. Actual subscription votes would depend upon the subscription price per share.

c/ The total number of membership votes has been set for illustrative purposes at about 10% of the total, divided between the different groups in rough proportion to the number of countries in each group.

56. In the second alternative, the group of industrialized countries and the group of developing countries (including capital surplus developing countries) would have approximately the same position in the voting structure and the actual determination of majorities would be left in the balance through the presence of additional elements in the voting structure. These additional elements might comprise the possible participation of IBRD in the capital and voting structure. Account could also be taken of support given to the Affiliate in the form of direct lending by according votes to creditors. The table below illustrates a part of the votes in the Affiliate being provided for this purpose.

Case II:

	Industrial Countries (OECD)	Developing Countries 1/	Other 2/	Total
Capital Subscriptions ($b)	8.2	6.6	0.2	15.0
Subscription Votes	480	395	-	875
Membership Votes	20	105	-	125
Other 2/	-	-	125	125
Total Votes	500	500	125	1125
% of Total	45%	45%	10%	100%

1/ Including capital surplus developing countries.

2/ Votes issued in connection with IBRD subscription to paid-in capital and for creditors.

57. The table above modifies the previous table by combining the subscriptions and votes of both capital surplus and other developing countries and by introducing the different balance and additional elements in the structure described above. It should be emphasized that the numbers are purely illustrative and it should be recognized, as explained below, that variations in each of the elements shown, (capital subscriptions, subscription votes, membership votes and the other elements) are possible depending on the way in which each of these elements is treated. For example, subscription votes might be modified to reflect the possibility of different classes of shares,or the proportion of membership votes in the structure might be different or, for example, might be limited to the poorest developing countries.

58. This discussion of two alternative capital and voting structures has been designed to highlight several important issues that will need to be discussed in detail in the course of negotiations. The issues cover subscription

votes (both the weight they would have in the total voting system and the basis on which they would be accorded) membership votes, and the questions relating to the possible participation of IBRD in the Affiliate and the provision of votes to creditors. Key aspects of these various issues are discussed further below.

Votes for Creditors

59. Under an approach according votes to creditors either a certain proportion of votes (say, 5-10%) could be set aside to be distributed

to major creditors, or, the proportion of floating votes a country might be eligible to receive could be set in relation to the country's normal share of votes. Such a system would involve a determination from time to time of major creditor status as measured by borrowings outstanding or credit agreements arranged. There are further questions about such a system which would also have to be considered in detail at a later point, such as what type of action would confer floating votes (access to market, permission to use a currency, direct official lending, etc.) and whether voting power conferred in this way should be exercisable over the full range of decision-taking in the Affiliate or on limited issues.

60. IBRD Participation. It has been suggested that the Bank itself should participate in the capital and voting structure of the Affiliate. If the Bank were to do so, it would only be able to subscribe to fully paid-in shares and for this purpose a separate class of shares might need to be created. However, Bank participation in the shareholding of the Affiliate would raise a number of difficult issues which would need to be carefully examined. These include, for example, a formulation of the Bank's role and representation in the Affiliate and the manner in which the Bank's voting rights would be exercised, especially in determining majorities on important issues. The issue of Bank

participation could be further explored in the course of detailed negotiations.

61. <u>Different Classes of Shares.</u> It might be desirable to have the voting system adjustable to reflect possible differences in the proportion of paid-in capital which different countries may wish to make available. For this purpose a larger number of votes might be accorded to subscriptions with a larger paid-in portion. This could be done <u>inter alia</u> by establishing two classes of subscription votes, one corresponding to the paid-in portion of subscriptions and the other corresponding to the guarantee or 'callable' part. Alternatively, different classes of shares allowing for different proportions of paid-in capital could be established with different votes accorded to each.

62. <u>Qualified Majorities.</u> The approach of requiring a significant majority for decisions on major issues has also been suggested as a possible device for protecting minority rights and ensuring a sound decision-making process in the Affiliate. The question of the types of issues that would require higher majorities would need further examination. The interpretation of, or changes to, the Articles of Agreement of the Affiliate, or questions involving increases in capital are clearly issues of fundamental significance and the requirement of a significant majority for decisions on such issues does not appear unreasonable. At the same time, there would be a risk to the sound running of the Affiliate if qualified majorities were extended to cover issues related to more routine financial or lending operations of the Affiliate.

VI. SUMMARY AND RECOMMENDATIONS

63. This paper has outlined an Affiliate which could fulfill three major functions:

: mount a comprehensive program of support for energy investments fully integrated into the reoriented development strategies made necessary by high cost energy;

: serve as a catalyst to mobilize additional finance for this purpose from all sources and in particular, private capital;

: act as a lender of last resort to finance about 10% of sector investment needs, particularly those investments which cannot be undertaken by private capital.

64. The financial structure outlined holds out the promise of mobilizing the additional resources required at a minimum cost in terms of government outlays. The benefits to the international community in terms of improved balance in international energy markets, and a smoother approach to the long run structural adjustments needed in developing country economies will be large. Negotiations should be started to examine in detail whether this promise could be fulfilled.

65. The starting of detailed discussions would not commit participants in the discussions to support the eventual formation of an Affiliate. That decision can only be taken by the Governnors of the Bank in the light of an in-depth examination by their Deputies of the approaches described in this paper. Nor would the start of negotiations commit participants to join as founding members of an Affiliate if one were set up. Of course, it would be hoped that an Affiliate would attract, in due course, the widest possible membership, but for budgetary or other reasons not all countries could necessarily be expected to join at the outset. Provision could be made to

facilitate later accession and to permit the start of operations on the basis of less than full membership. It is therefore recommended that Executive Directors approve the start of negotiations on an Affiliate along the lines described in this paper.

Alternative Text for Discussion of Voting Rights (in lieu of section beginning 'alternative capital and voting structures')

These general considerations cannot yet be expressed in percentages for particular countries or for particular groups. It is hoped that in due course countries will wish to subscribe in line with their economic and financial strength. It would not appear advisable to relate the voting structure to particular economic or political groups in the Affiliate's possible membership. Groupings involve rather arbitrary distinctions between countries, their validity changes over time and it would be undesirable to introduce a categorized system of voting into the Affiliate.

However, the broad considerations outlined above suggest that the approach to the capital and voting structure in the Affiliate should incorporate the following elements:

: the major subscribers to its capital should have the major share in its votes;

: special measures should be taken to protect and enhance the position of developing countries through the allocation of membership votes;

: consideration should be given to recognizing in the voting structure the role of major creditors.

FEB 25 1981

Dear Mr. Minister:

Thank you for your letter of November 11, 1980 and for drawing my attention to the large discrepancy between the figures of UAE's official development assistance for 1979 shown in the World Development Report and the figures cited in your letter. Your Government has, for many years, been in the forefront of providing development assistance, and I would like to ensure that publications of the Bank accurately reflect that excellent record.

In the past, the Bank has obtained the data on official development assistance from OECD, which collects such data from all donor countries and presents them on a comparable and homogeneous basis. However, to do justice to the major increase in the aid efforts of OPEC countries in recent years and to improve the amount of information available to us, the Bank staff would also find it useful to collect relevant data on development assistance directly from your Government. It would be very helpful for this purpose if you could designate an institution in your Government that might act as a point of contact with our staff and take the responsibility for providing the information on an accurate and timely basis. In this connection, I have asked Mr. Qureshi, Senior Vice President, Finance, to arrange for one of his associates to travel to the UAE within the next few weeks to discuss these issues in detail with your officials and set up the necessary arrangements.

I hope these arrangements will be agreeable to you and will avoid any future misreporting of UAE development assistance.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

His Excellency
Shaikh Hamdan bin Rashid Al-Maktoum
Minister of Finance and Industry

P.O. Box 1365
Dubai
United Arab Emirates

Copy to Mr. El Naggar

cc: Messrs. Qureshi, Chenery, Wood/Applegarth
HArdalan/MAQureshi/PApplegarth:gmb
February 24, 1981

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Mr. Moeen A. Qureshi

DATE: February 23, 1981

FROM: Eugene H. Rotberg

SUBJECT: Two-Year Bonds - March 1981

Cables to the central banks of the Bank's member countries offering for subscription $300 million of the Bank's 14.00% Two-Year Bonds maturing March 15, 1983 were dispatched on Tuesday, February 10 following the Board meeting which set the interest rate for the Issue and its principal amount. The cables stated the subscription period would close on February 17.

We have received subscriptions of $293.35 million or $6.65 million below the maturing amount.

The Arab Republic of Yemen with maturing holdings of $28.6 million did not subscribe. Because of increased subscriptions we were able to cover some of this shortfall but not completely. The major contributors to this Issue are the Bank of Libya ($50 million), Saudi Arabia ($26 million), Belgium and Nigeria with $20 million each.

There is attached a schedule (Attachment I) showing those countries which responded to our offering - including those who declined -, the amounts of their subscriptions and a comparison to the maturing issue.

There is also attached a second schedule (Attachment II) listing those countries who held the maturing issue but who did not respond one way or another to our offering cable.

Attachments

Responses
to the Bank's Offering of
14% Two-Year Bonds of 1981,
due March 15, 1983
(in millions)

	Responses	+ or (-) Over Maturing Issue
Afghanistan	3.0	(1.9)
Algeria	3.0	1.4
Argentina	9.5	-
Australia	2.3	-
Austria	1.0	0.4
Bahrain (Monetary Agency)	5.0	2.4
Bahrain Ministry of Finance	No	-
Bangladesh	1.3	-
Barbados	0.5	-
Belgium	20.0	7.0
Bolivia	No	-
Botswana	1.0	1.0
Brazil	5.0	(1.2)
Burma	0.5	(0.1)
Canada	No	(5.4)
Chile	4.6	-
China:		
People's Republic of China	3.0	3.0
Bank of China	1.0	1.0
Cyprus	1.0	-
Denmark	1.3	-

	Responses	+ or (-) Over Maturing Issue
Ecuador	3.0	(2.2)
Egypt	No	-
El Salvador	No	-
Equatorial Guinea	No	-
Ethiopia	1.3	-
Fiji	0.5	-
Finland	No	(1.9)
France	2.0	0.1
Ghana	0.5	0.5
Greece	No	-
Guatemala	0.25	-
Guyana	No	-
Honduras	1.25	1.25
Iceland	1.3	-
India (Central Bank & Supply Wing)	10.4	-
Indonesia	10.0	(3.0)
Ireland	No	-
Italy (Ufficio dei Cambi)	13.0	-
Japan	10.0	3.5
Jordan	1.3	-
Kenya	1.3	-
Korea	2.0	0.1
Kuwait (Central Bank)	0.6	-
Kuwait (Fund)	No	(0.6)

	Responses	+ or (-) Over Maturing Issue
Lesotho	0.2	0.2
Libya	50.0	8.75
Malawi	No	-
Malaysia	2.0	(1.3)
Morocco	0.2	-
Nepal	1.3	-
Netherlands	10.0	3.5
New Zealand (Central Bank & Treasury)	1.9	-
Nigeria	20.0	16.7
Norway	10.0	6.7
Pakistan	No	-
Panama	0.5	0.5
Peru	0.6	-
Philippines	5.0	1.7
Portugal	No	-
Qatar	0.1	-
Rwanda	No	-
Saudi Arabia (Arab Petroleum Investment Corp.)	No	-
Saudi Arabia (Islamic Development Bank)	No	-
Saudi Arabia (SAMA)	26.0	-
Seychelles	0.25	0.25
Sierra Leone	No	-
Singapore	No	(1.9)
South Africa	1.0	0.4

	Responses	+ or (-) Over Maturing Issue
Spain	6.5	-
Sudan	0.1	-
Swaziland	No	(1.9)
Sweden	1.0	(0.3)
Switzerland (BNS)	No	-
Thailand	1.3	-
Trinidad & Tobago	1.3	-
Tunisia	3.0	1.7
Turkey	No	-
United Arab Emirates:		
Abu Dhabi Investment Authority	No	(0.5)
Central Bank	No	(6.5)
United Kingdom	No	(3.3)
Venezuela	5.4	-
Vietnam	2.9	-
Western Samoa	No	-
Yemen Arab Republic	No	(28.6)
Yemen People's Democratic Republic	2.0	0.7
Yugoslavia	3.3	-
Zimbawe	No	-
Arab Bank for Economic Development - Khartoum	No	-
Crown Agents	No	-
OPEC Fund - Vienna	0.6	-

	Responses	+ or (-) Over Maturing Issue
United Nations Capital Development Fund	5.0	5.0
United Nations Development Programme	10.0	3.5
Vatican	0.2	-
	293.35	10.65

Holders of Maturing Issue
Which Did Not Respond to Offering
(in millions)

	Amount Held
Colombia	2.3
Ivory Coast	2.7
Mexico	6.5
Solomon Islands	.6
Uganda	.6
Uruguay	.6
Banque Centrale des Etats de l'Afrique de l'Ouest	1.4
BIS	1.3
	16.0

WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through Mr. Moeen A. Qureshi) MAQ

DATE: February 18, 1981

FROM: Eugene H. Rotberg ER

SUBJECT: Proposed Borrowing Operation

There is attached for your approval a Board Paper for a proposed public offering in The Netherlands. The paper has been cleared with the Legal Department. We would plan to distribute it tomorrow for consideration by the Board on Tuesday, February 24, 1981.

The proposed public offering of bonds would be in a principal amount of up to Dutch Guilder 200 million, equivalent to $84.4 million. It would be underwritten by a syndicate managed by the Algemene Bank Nederland N.V. The final maturity would be 10 years. The bonds would be repayable in 5 equal installments in each of the years 1987 through 1991. This results in an average life of 8 years. In today's market, the interest rate would be 11-1/4%, payable annually, and the issue price would be par. This would result in a yield of 10.95%. After taking into account underwriting commissions of 1-3/8% and a brokerage commission of 5/8%, fiscal agency fees, and all other expenses, the cost to the Bank would be 11.38%. On this basis, the breakeven point with the cost of a dollar borrowing (14.20%) of the same maturity would be 22%. These terms are subject to further negotiations in light of market developments between now and Tuesday, February 24.

On February 24 the Board would be asked to approve the definitive terms of the issue, except for the issue price. For the issue price, in accordance with previous practice for borrowings in The Netherlands, we would ask the Board on February 24 to approve a price of not less than about 0.50% (10 basis points) below the issue price the market would require on February 24. Thus the Board would be asked to give management authority for accepting a cost not in excess of 10 basis points above the cost of the issue presented to the Board on February 24. The definitive pricing of this issue would be on February 27 and the public offering would be on March 3.

Attachment

For consideration on
February 24, 1981

R81-

FROM: The President

February 19, 1981

PROPOSED PUBLIC ISSUE IN THE NETHERLANDS

1. The attached Draft Resolution (Attachment I) authorizing the issuance and sale by the Bank of not exceeding f. 200,000,000 principal amount of Dutch Guilder Bonds of 1981, due 1987/1991 (the Bonds) will be considered by the Executive Directors at their meeting on February 24, 1981.

2. The principal terms of the proposed issue would be as follows:

(a) Principal Amount:	Not to exceed f. 200,000,000 (US$ 84,889,643 million equivalent*) to be determined in the light of market conditions.
(b) Term:	The Bonds would be repayable in 5 equal annual installments on April 1 of each of the years 1987 through 1991. This results in an average life of 8 years.
(c) Interest Rate, Issue Price, Cost and Revaluation Breakeven Point:	To be discussed at the meeting of the Executive Directors. Shortly before the meeting, Algemene Bank Nederland N.V., the manager of the underwriting syndicate, will propose the interest rate for the Bonds and a minimum price at which the Bonds could be offered to the public; such interest rate and minimum price to be included in the purchase agreement scheduled to be signed on February 24, 1981.

Distribution:

Executive Directors and Alternates
Senior Vice President, Finance
Senior Vice President, Operations
Vice President and General Counsel
Vice President and Treasurer
Vice President and Controller

*Based on market rate as of February 18, 1981 of US$1 = f.2.3560

This minimum price would include a margin for the event that less favorable market conditions prevailed on February 27, 1981, the time fixed for the definitive pricing. The Offering and Subscription of the Bonds would be on March 3, 1981.

3. The proposed purchase agreement for the public issue to be concluded with the Algemene Bank Nederland N.V., as manager of the underwriting syndicate, would be substantially similar to the purchase agreements concluded for previous public issues of Bank Bonds in The Netherlands. The agreement would provide for the payment by the Bank of an underwriting commission and management fee of 1-3/8% and the customary brokerage commission of 5/8% on the principal amount of the Bonds.

4. The issue would be represented by ordinary bearer bonds with interest coupons attached (K-Bonds) and so-called "CF-Bonds" which are bearer bonds with an interest coupon sheet attached. "CF-Bonds" may at any time be exchanged for ordinary bonds, and vice versa. In addition, CF-type bonds would also be made available in the form of certificates, each representing 50 bonds of f. 1,000 each. The Bank would pay an encashment commission of f. 0.30 per coupon due for payment (no such commission is payable on the interest on CF-type bonds), as well as a redemption commission of f. 1.50 per K-and CF-type bonds submitted for redemption. For the administration of the "CF Bonds" a small fee would be charged to the Bank.

5. The proposed borrowing would be charged against the FY81 Borrowing Program. The amount borrowed to date applicable to FY81, including the amount of the proposed issue in The Netherlands would be $4,354.4 million (see Attachment II).

Recent market yields on selected World Bank bond issue are given in Attachment III.

Robert S. McNamara

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(DRAFT)

RESOLUTION NO. 81 -

Authorizing the Issuance and Sale of pct. Dutch Guilder Bonds of 1981, due 1987/1991

WHEREAS International Bank for Reconstruction and Development (hereinafter called the Bank) has determined to borrow in the markets of the Netherlands, and for that purpose to issue and sell an issue of Bonds of the Bank in an aggregate principal amount not exceeding f.200,000,000 (two hundred million Dutch Guilders) to be known as its " pct. Nederlandse Guldenslening 1981 per 1987/1991" (pct. Dutch Guilder Bonds of 1981, due 1987/1991);

NOW THEREFORE BE IT RESOLVED AS FOLLOWS:

1. The Bank hereby creates an issue of its Bonds to be known as its " pct. Nederlandse Guldenslening 1981 per 1987/1991" (pct. Dutch Guilder Bonds of 1981, due 1987/1991), hereinafter called the Bonds; to be limited to such aggregate principal amount, not exceeding Dutch Guilders 200,000,000 (except for Bonds issued in lieu of or in exchange for lost, destroyed or mutilated Bonds) as shall be determined by the President or the Senior Vice President, Finance of the Bank; to be dated April 1, 1981, and to mature April 1, 1991; to bear interest at the rate of per cent (pct.) per annum, payable annually; and to be repaid at par in five equal or approximately equal annual installments on April 1 of each of the years 1987 through 1991.

2. The definitive Bonds shall be bearer Bonds dated April 1, 1981, with annual interest coupons or an interest coupon sheet attached, and shall be otherwise in such form and in such denominations and shall be issued on such terms and conditions as shall be approved by any of the persons specified in paragraph 4 of this Resolution.

3. Bonds shall be signed in the name and on behalf of the Bank with the signature of its President or its Senior Vice President, Finance, and shall be countersigned by its Vice President and Treasurer or its Director, Treasury Operations and Deputy Treasurer, and a facsimile of the Bank's official seal shall be printed, lithographed or engraved thereon. The respective coupons or coupon sheets to be attached to the Bonds shall bear the signature of the Vice President and Treasurer or the Director, Treasury Operations and Deputy Treasurer of the Bank. Any signature or countersignature provided for in this paragraph may be manual or facsimile.

4. Subject to any approval required from the Government of the Netherlands, the President, the Senior Vice President, Finance, the Vice President and Treasurer, the Director, Treasury Operations and Deputy Treasurer, the Vice President and General Counsel, the Associate General Counsel, the Chief, Financial Operations Division and the Director, European Office, of the Bank, are fully authorized, jointly and severally in the name and on behalf of the Bank, to sell for Dutch Guilders at any time all or any of the Bonds at a price not less than   % of the principal amount thereof and upon such other terms and conditions as shall be approved by any such person or persons, to deliver the Bonds, and to receive or arrange for the payment therefor.

5. Pending the preparation and delivery of the definitive Bonds, a Temporary Certificate in the aggregate principal amount of the Bonds to be issued may be executed and delivered to the purchasers. Such Temporary Certificate shall be in such form as shall be approved by, and shall be signed manually in the name and on behalf of the Bank by, any of the persons specified in paragraph 4 of this Resolution.

6. Any of the persons specified in paragraph 4 of this Resolution are hereby authorized, jointly and severally, in the name and on behalf of the Bank, to execute and deliver any and all such other documents, to enter into such other agreements and execute, publish and deliver such notices, reports and documents, and to do any and all such other acts and things as such person or persons shall deem necessary or advisable in order fully to carry into effect the purposes of this Resolution.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ACTIONS TO BE CHARGED AGAINST BORROWING PROGRAM FOR FISCAL YEAR 1981

Country/Institution	Approved	Terms (Yrs.)	Average Life (Yrs.)	Amount (million) Currency	Amount (million) $ Equiv.	Yield to Initial Purchaser-%	Cost to IBRD-%	Recent Market Yield-%
Kuwait/Germany (Private)	6/3/80	8.0	8.0	DM 150	84.8	8.41	8.69	N.A.
Euro-Bonds/US$	6/9/80	7.0	7.0	-	300.0	10.00	10.42	13.89
Euro-Bonds/US$	6/10/80	5.0	5.0	-	200.0	9.52	9.99	13.62
Switzerland	6/24/80	15.0	13.0	SwF 100	61.3	5.79	6.23	6.76
Germany	7/3/80	10.0	10.0	DM 500	284.4	7.94	8.26	9.42
Saudi Arabia	7/3/80	10.0	10.0	DM 200	113.7	8.19	8.22	N.A.
Switzerland (Private)	7/15/80	7.0	7.0	SwF 150	94.5	5.79	6.11	N.A.
Germany (Private)	7/15/80	5.0	5.0	DM 152	87.4	8.30	8.30	N.A.
Germany (Private)	7/22/80	10.0	10.0	DM 140	80.1	8.08	8.08	N.A.
Germany (Private)	7/22/80	15.0	10.5	DM 10	5.7	8.06	8.06	N.A.
Saudi Arabia (Private)	7/29/80	7.0	6.5	SwF 175	109.8	6.03	6.04	N.A.
Saudi Arabia (Private)	7/29/80	8.0	7.5	AS 1,080	87.6	9.20	9.21	N.A.
Saudi Arabia (Private)	7/29/80	8.0	7.0	f 200	105.2	9.87	9.88	N.A.
Saudi Arabia (Private)	7/29/80	10.0	8.5	SRls 330	99.5	9.50	9.51	N.A.
Germany (Private)	7/31/80	8.0	8.0	DM 200	114.2	7.65	7.91	N.A.
Germany (Loan)	8/5/80	12.0	12.0	DM 200	113.5	7.94	7.94	N.A.
Germany (Loan)	8/5/80	12.0	12.0	DM 200	113.5	7.94	7.97	N.A.
a (Private)	8/5/80	7.0	7.0	DM 100	56.8	7.79	7.80	N.A.
ral Banks (Private)	8/8/80	2.0	2.0	-	299.0	10.17	10.17	N.A.
Germany (Private)	8/8/80	10.0	10.0	DM 150	84.5	7.77	7.96	N.A.
Switzerland (Loan)	8/26/80	6.0	6.0	SwF 200	120.7	6.06	6.12	N.A.
Japan	9/9/80	15.0	12.3	¥ 30,000	138.6	8.61	8.91	8.63
Germany (Loan)	9/9/80	10.0	8.0	DM 100	56.3	8.26	8.26	N.A.
Central Banks (Private)	9/16/80	4.0	4.0	SwF 200	122.9	5.875	5.83	N.A.
Switzerland	10/21/80	10.0	9.5	SwF 100	61.0	5.91	6.39	6.12
Japan (Private)	10/27/80	6.5	6.5	¥ 34,000	163.9	8.50	8.50	N.A.
Switzerland (Private)	11/25/80	5.0	5.0	SwF 200	115.6	5.91	6.27	N.A.
Japan (Loan)	12/9/80	20.0	17.5	¥ 40,000	183.6	8.90	8.94	N.A.
Japan (Loan)	12/9/80	20.0	17.5	¥ 20,000	91.8	8.90	8.94	N.A.
Germany	12/9/80	10.0	10.0	DM 250	128.7	9.16	9.49	9.20
Third Window	3/22/76	13.0	13.0		8.5	8.50	8.50	N.A.
Germany (Private)	1/12/81	5.0	5.0	DM 250	129.5	9.80	9.80	N.A.
Switzerland	1/27/81	10.0	9.5	SwF 100	54.9	5.98	6.45	6.35
Central Banks (Private)	2/10/81	2.0	2.0		300.0	14.00	14.00	N.A.
Euro-Bonds/yen	2/17/81	10.0	10.0	¥ 20,000	98.0	8.57	8.88	N.A.
			7.8		4,269.5		8.55	
Netherlands (Proposed Public Issue)		10.0	8.0	f. 200	84.9			
			7.9		4,354.4			

N.A. - Not Applicable

Projected Average Returns/Costs on IBRD Assets and Liabilities for FY81

	Balances as of June 30, 1981 (in $ billions)	Returns/Costs 1/ (in %)
Cash and Investments	10.0	9.0
Receivable from disbursed loans	27.9	8.1 2/
Other Assets	1.7	-
Total Assets	39.6	8.0
Borrowings	30.6	7.5
Other Liabilities	1.2	-
Capital and Reserves	7.8	-
Total Liabilities, Capital and Reserves	39.6	5.8

1/ Current Yields/Costs are:

Investments	11.11
Borrowings Outstanding	7.46
Borrowings to date - FY81	8.55

2/ Interest on loans and commitment charges as a percent of average disbursed loans outstanding.

ATTACHMENT III

Recent Market Yield on Selected World Bank Bond Issues

Issues		Recent Market Yield %
7%	Canadian dollar Bonds of 1968, due 2/15/93	13.86
7-1/4%	Belgian Franc Bonds of 1972, due 3/1/84	13.33
7-3/4%	Deutsche Mark Bonds of 1979, due 7/1/91	9.98
8.60%	Japanese Yen Bonds of 1980, due 9/19/95 (Eleventh Series)	8.63
6-1/4%	Yen Bonds of 1977, due 8/15/84	9.15
8%	Netherlands Guilder Bonds of 1976, due 5/16/86	9.93
5-7/8%	Swiss Franc Bonds of 1980, due 7/17/95	6.76
8.85%	United States dollar Bonds of 1976, due 12/15/85	13.71
7-3/4%	United States dollar Bonds of 1977, due 8/1/87	13.82
8.35%	United States dollar Bonds of 1977, due 8/1/2002	13.95

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 13, 1981

FROM: Moeen A. Qureshi MAQ

SUBJECT: BRAZIL - Carajas Iron Ore Project

IFC's proposal for an investment in Carajas Iron Ore project in Brazil presents several problems that, in my view, need more careful consideration.

First, of course, there is the issue, which you have noted, as to whether, and to what extent, IFC is needed in this project. CVRD is a very large government-owned enterprise which in the past has received large injections of government funds. It is difficult to see what difference the mobilization of $50 million by IFC will make to the proposed iron ore project which is estimated to require $1.5 billion of equity funds. For IFC to have a role in this project, it must be in a position to attract a more significant proportion (say, at least 10-15%) of the equity or equity-type funds needed from private sources. Incidentally, the sale of participations in a subordinated convertible loan is not likely to prove a very effective way of approaching this task. Perhaps an underwriting, in collaboration with local institutions to support an equity or equity-type issue (or private placement) with IFC participating for a small amount in order to provide its "seal of good housekeeping", may hold more promise. My own feeling is that it is going to be extremely difficult for IFC to mobilize even the assumed $25 million of funds from genuinely private sources in the form of participations in a subordinated convertible loan to a CVRD subsidiary.

Second, I am even more concerned about the capacity of IFC to assume the risks associated with this loan. Given the currently depressed state of the iron ore market, the fairly poor financial performance of CVRD during the last several years, the fact that it is a government-controlled enterprise -- all of these factors suggest that the convertible feature will not add much to the attractiveness of the loan whereas the subordinated feature (assuming that it is true subordination) will detract a great deal from it. The financial market will therefore demand a significant margin over prevailing long-term market rates to cover the additional risk of this instrument.

I have also reservations - in terms of both financial risk and economic priority - about putting so much of IFC's own funds ($25 million) into equity or quasi-equity of an iron ore project in Brazil. From a financial point of view, this amount is equivalent to about 5% of IFC's equity base and while I am all too conscious of the downside risks of this investment, I do not see much upside potential. IFC has already substantial funds in subordinated loans in Brazil (e.g. FIAT) which are not doing too well. I would therefore be quite wary of such a large equity-type exposure on financial grounds. As regards non-financial and developmental objectives, I do not put much weight on the expected "privatization" of CVRD: the proposed total investment (including participations) would be only 3% of the subsidiary's equity, not to mention that of CVRD. As now structured, there is little contribution that IFC would be making to the project that could not be better made by other institutions.

The proposal is still at a very early stage -- before either the project or its financing possibilities have been carefully looked at. IFC should therefore examine more closely whether it has a contribution to make, and whether financing from private sources can be attracted, and, if so, in what form and on what terms. If a role for IFC in this project can be more clearly defined, I would then suggest IFC should still limit its own exposure well below the proposed $25 million.

cc: Mr. Wuttke

MAQureshi:gmb

WORLD BANK

OFFICE OF THE PRESIDENT

To Messrs Wittke,
Qureshi
Stern

Can not the project proceed without IFC's participation?

Bob

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: January 30, 1981

FROM: Hans A. Wuttke

SUBJECT: BRAZIL - Carajas Iron Ore Project

1. I would like to obtain your concurrence to IFC's providing equity-type financing for the Carajas project. Carajas constitutes one of the major undertakings in Brazil for the 1980's, and should generate substantial foreign exchange earnings and stimulate the development of the Amazon region. Given its priority, the government and CVRD have asked for IBRD and IFC participation in its financing. While the Bank would provide substantial loan financing, it is envisaged that IFC would provide quasi-equity in the form of a long-term (12/15 years) subordinated convertible loan of at least US$50 million, of which not more than US$25 million would be for IFC's own account. The concept of a subordinated convertible loan is viewed as an important supplement to the Bank financing and has found strong interest among CVRD's top management. We would now like to convey to them that IFC would in principle be in the position to assist subject to the Bank's appraisal, and to the structuring by IFC of a satisfactory convertible security.

2. The Carajas iron ore project will be implemented by a subsidiary of CVRD, Amazonia Mineracao S.A. (AMSA). It will form the core of several potential mining projects (including bauxite, manganese and copper) in the Serra dos Carajas in the State of Para, in the Amazon Basin. In addition to the mine and the beneficiation plant the project includes the construction of a railroad of about 900 km in length and a port in Sao Luis, the capital of the State of Maranhao. Start-up of the project is planned for 1985 with full capacity of 35 million tpy of iron ore, which is intended for export, to be reached by 1987. CVRD presently estimates total project cost at $4.2 billion. The current financial plan includes equity ($1.5 billion), cash generation ($0.7 billion) and long-term debt ($2.0 billion). The equity would be entirely provided by CVRD from its cashflow from existing operations. The long-term debt is expected to be provided by the National Development Bank ($800 million), by bilateral sources in the ore consuming countries, and by the international financial institutions.

3. In assisting CVRD in structuring the financial plan, several forms of quasi-equity have been discussed. Given the limited amount of equity funds at IFC's disposal, it has been found that a subordinated convertible loan would best match IFC's possibilities and CVRD's needs. Through this type of financing IFC would be able to make a substantial contribution, since it would not only permit increasing the amount of funds IFC can provide for its own account, but also help to raise additional quasi-equity financing from other sources. This will strengthen the financial structure and beyond that give the project additional credibility with international lenders as the IFC loan would be provided on a project financing basis without governmental or traditional commercial loan guaranties. The conversion feature of the IFC loan is important for the support of the development of the domestic capital markets by establishing private Brazilian ownership in AMSA. Should

AMSA be integrated into the 77% state-owned parent company before conversion, IFC would convert its subordinated loan into CVRD shares and thereby eventually increase private Brazilian ownership in CVRD itself.

4. Given the size of the proposed IFC involvement and its importance for CVRD's strategy in structuring the financial package, I would appreciate receiving your concurrence to proceed along the lines outlined above.

HPaul/JMRuisanchez:cww
IFC-CL2BB

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 13, 1981

FROM: Moeen A. Qureshi MAQ

SUBJECT: PMC Meeting

I am disturbed that Mr. Paijmans has put the question relating to the appointment of Larry Rapley's deputy - an N level position - before the Personnel Management Committee. This is wrong both in terms of procedure and with respect to my management functions. To begin with, I have the impression that the Personnel Management Committee generally considers only P and Q level positions. Normally, even I do not intervene in the appointment of N level positions, leaving that matter to the directors concerned. If the Personnel Department saw a problem emerging in terms of the suggestions made by Rapley, they should have taken up this matter with me, and if they still felt strongly about it, they could always appeal to the President. But to take matters relating to N level positions directly to the Personnel Management Committee, without even discussing this matter with me, is an approach that is completely unacceptable to me.

The first that I knew about this matter was a conversation in which Rapley reported to me two days ago that Personnel had different ideas from him as to who should be appointed as his deputy, that they intended to take this matter up at PMC, and would I please support his point of view.

The PMC members are unlikely to know the candidates involved. To put candidates at that level before the PMC is not only a waste of everyone's time, but is also an unnecessary interference in my normal management responsibilities. As I indicated, if Mr. Paijmans had felt that my judgment in this matter, and for that matter in any other personnel issues, was deficient, he always has the recourse to take up this matter with you.

At this stage, I would request that this matter be taken off the agenda of the PMC meeting on Tuesday.

cc: Mr. Paijmans

MAQureshi:mr

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: February 12, 1981

FROM: Moeen A. Qureshi

SUBJECT: Questions Raised in Discussion of Possible Expansion in IBRD/IDA Lending

Please find attached the note which was promised to the Board at the conclusion of the discussion on Possible Expansion in IBRD/IDA Lending (January 27-28). The note avoids promising any papers other than those already scheduled.

Is it agreeable to you that this be circulated to the Board for information?

Attachment
JWood:es

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

Office of the President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Questions Raised in Discussion of Possible Expansion in IBRD/IDA Lending

In the course of the January 27 and 28 Board discussion of the paper on the Possible Expansion of IBRD/IDA Lending for FY82-86 and the Means of Financing such an Expansion, Directors requested a summary of issues and questions raised during the discussion. These topics are summarized below along with the Management's proposals for further action:

#1. Energy Affiliate. Several Directors asked about the shape of an affiliate's lending program; its operation, structure and link to the Bank; and about its potential impact on world energy supply. A Director asked about the impact on the IBRD portfolio of an energy affiliate.

Proposed Action: The staff is now preparing a paper on the affiliate which will address these questions. It is expected that this paper will be circulated to the Executive Directors within the next few weeks.

#2. Structural Adjustment Lending. Several Directors spoke of the need for a review of the achievements of SAL lending and of Bank/Fund collaboration in this area.

Proposed Action: A staff review is currently underway; it is scheduled for circulation to the Executive Directors sometime in March.

#3. FY82 Lending Program. Several Directors asked Management to develop in more detail possible transitional arrangements for FY82 which would enable Bank lending to expand toward the level discussed in the memorandum on expanded lending. A Director asked about the potential for adjustments in the composition of IDA6 lending, and another asked about the change in sectoral composition of lending if additional resources were either unavailable or limited. One Director suggested that members be asked to state the intended timing of their GCI subscriptions, so that a better idea could be obtained of the availability of capital in FY82 and beyond.

Proposed Action: It is proposed that the Review of the Operating Program and Budget for FY82 contain an alternative scenario, which would constitute a first step toward expansion of the lending program.

#4. Financial Policies. Several Directors requested further analysis of several aspects of the Bank's finances, such as: interest rate and other risks faced by the Bank; the reaction of underwriters and lenders to borrowing beyond callable capital plus cash; a comparison with other institutions' reserve policies; future net income requirements; and uses of Bank income. Several Directors expressed interest in a review of the policy on graduating blend countries to IBRD lending, and on hardening the IBRD/IDA blend. A Director asked about the possibility of an interest subsidy scheme for these countries. Many Directors expressed interest in lending rates fixed at time of disbursement or adjustable during the life of the loan; credit lines of various kinds; and changing the statutory lending limit. Some of these might mean that borrowers would bear increased costs or risks, and one Director asked that borrowing countries be asked to indicate their willingness to accept a higher cost of resources as the price of expanded availability. A Director asked about the impact on credit markets of expanded borrowing.

Proposed Action: Review of future net income requirements might best be deferred until some of the issues concerning a possible energy affiliate, the GCI and IDA6 have been resolved. It is therefore not proposed to circulate a paper on this subject at this time. Staff work will be initiated, however, on alternative borrowing instruments and techniques for passing on interest rate risk to borrowing countries.

#5. Organization and Staffing. Several Directors mentioned the ramifications for the organization and staffing of the Bank of an expanded lending program and the subject of decentralization.

Proposed Action: The staffing aspects of expanded lending will be considered in the memorandum which examines the operational program and budget for FY82 and subsequent years.

#6. Miscellaneous. A number of other topics were mentioned in the Board discussion by individual Executive Directors such as, for example, the role of the IFC in the energy sector, the reason for the change in the estimate of the "steady state" level of lending, the need to educate the public about the costs and benefits to developed and developing countries of the Bank Group's activities, and the need for more direct flows from capital surplus oil exporters to developing countries.

Proposed Action: These topics will be discussed with the individual Directors who raised the questions, with copies of all material supplied for information to all Board members.

FORM NO. 75 (9-78)

THE WORLD BANK

ROUTING SLIP	DATE: February 11, 1981

NAME	ROOM NO.
Mr. McNamara (through Mr. Qureshi)	
cc. Members of the President's Council	

	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 Table 1c. Monthly Financial Report as of Jan. 31, 1981.

FROM:	ROOM NO.:	EXTENSION:
Masaya Hattori	I 4-100	61051

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through: Mr. Moeen A. Qureshi)

DATE: February 11, 1981

FROM: Masaya Hattori

SUBJECT: Table 1c - FY81 Projection

At the end of January, the Bank's projected net income from operations remained unchanged at $595 million. The net exchange loss on retained earnings in non-dollar currencies, however, increased by $100 million to $217 million as a result of the continuing appreciation of the US dollar.

ICMazzitti/na

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

($ Millions)

CONFIDENTIAL

	Actual FY1980	Jul.31	Aug.31	Sep.30	Oct.31	Nov.30	Dec.31	Jan.31	Feb.28	Mar.31	Apr.30	May 31	Jun.30	Projected FY 1981 a/	Revised FY 1981 b/
		Cumulative from July 1, 1980 to													
IBRD Cash and Investments c/	9966	9710	9424	9315	9388	9098	8654	8359						9597	9986
Receivable from Borrowings d/	62	172	-	55	60	-	197	219						-	-
Receivable from Loans e/	51537	52162	52191	52050	52068	52451	52744	51793						56720	56024
Receivable from Subscribed Capital	755	763	761	812	798	797	781	795						776	880
Land and Buildings, Net of Depreciation	98	98	98	98	98	99	99	99						104	104
Accruals and Other Assets	1491	1571	1643	1638	1715	1769	1621	1610						1657	1591
TOTAL ASSETS	63909	64476	64117	63968	64127	64214	64096	62875						68854	68585
CALLABLE SUBSCRIBED CAPITAL o/	35963	36098	36098	36678	36682	36686	35656	35148						35721	37449
Due to IDA	789	789	789	761	877	874	874	874						751	817
Undisbursed Loans e/	24843	25243	24926	24805	24541	24673	25546	25572						28195	28088
Borrowings d/	29729	29882	29877	29779	30093	29973	29138	28062						30928	30587
Miscellaneous Liabilities	1071	1041	958	961	1056	1139	1026	944						1277	1191
Paid-in Capital and Reserves f/	7477	7521	7567	7662	7560	7555	7512	7423						7703	7902
TOTAL LIABILITIES AND CAPITAL	63909	64476	64117	63968	64127	64214	64096	62875						68854	68585
Income from - Investments	834.5	76.8	125.8	180.9	254.9	321.8	402.5	475.0						870	820
- Loans	1944.8	178.9	359.3	541.3	725.1	910.3	1092.2	1280.4						2155	2226
Other Income	20.2	1.6	2.7	3.6	6.4	7.5	9.8	11.0						13	19
Less: Administrative Expenses	198.0	17.9	34.7	46.9	69.6	95.8	110.7	127.6						236	243
Interest on Borrowings	1975.4	180.2	360.5	538.8	720.8	903.3	1073.5	1248.8						2215	2194
Financial Expenses g/	38.2	2.6	5.5	8.1	10.5	13.4	15.9	18.4						33	33
NET INCOME	587.9	56.6	87.1	130.0	185.5	227.1	304.4	371.6						554	595 m/
NET EXCHANGE GAIN (+) OR LOSS (-) h/	+ 88.1	-27.3	-12.1	-23.9	-64.0	-110.6	-117.1	-216.8						-	-217
IDA Investments	96	103	164	161	164	176	146	131						49	58
Unrestricted Cash, Notes and Receivables i/	8660	8565	8368	8224	8441	9843	9561	9533						11249	10879
Receivable from IBRD	789	789	789	761	877	874	874	874						751	817
Receivable from Credits e/	20722	20782	20802	20944	21012	21061	21534	21594						23967	24355
Restr. Sub. and Other Assets	366	362	363	365	383	384	377	376						343	367
TOTAL ASSETS	30633	30601	30486	30455	30877	32338	32492	32508						36359	36476
Undisbursed Credits e/	9696	9653	9530	9555	9545	9451	9800	9737						11276	11617
Swiss Loans and Other	176	187	200	179	188	199	211	190						145	173
Transfers from IBRD f/	1367	1367	1367	1367	1485	1482	1482	1482						1454	1470 n/
Accumulated Net Income	(66)	(69)	(74)	(78)	(77)	(80)	(83)	(81)						(119)	(109)
Paid Sub. and Suppl.	19460	19463	19463	19432	19736	21286	21082	21180						23603	23325
TOTAL LIABILITIES AND CAPITAL	30633	30601	30486	30455	30877	32338	32492	32508						36359	36476
Income from - Investments	11.0	1.0	2.1	4.0	5.8	7.6	9.4	11.0						6	12
- Credits	77.5	7.0	14.0	21.1	28.5	35.7	43.1	50.6						86	89
Less: Administrative Expenses	140.3	13.0	26.0	39.0	52.0	65.0	78.1	93.9						156	161
Net Exchange Gain (+) or Loss (-)	-0.7	+2.5	+2.2	+2.4	+6.8	+7.9	+8.6	+17.4						-	+17
NET INCOME (LOSS)	(52.5)	(2.5)	(7.7)	(11.5)	(10.9)	(13.8)	(17.0)	(14.9)						(64)	(43)
IFC Cash and Securities	14.5	22.1	33.4	23.5	28.7	31.1	20.6	28.0						4.0	4.0
Investments - Loans	1159.4	1169.3	1166.4	1159.3	1177.0	1168.0	1191.4	1186.9						1268.5	1423.3
- Equity	244.7	248.6	246.8	246.7	249.1	247.0	248.9	249.1						304.8	291.7
Less: Reserve Against Losses	49.0	49.9	50.8	51.7	52.6	53.5	53.3	55.2						61.6	65.5
	1369.6	1390.1	1395.8	1377.8	1402.2	1392.6	1407.6	1408.8						1515.7	1653.5
Accruals and Other Assets	3.9	5.0	6.9	3.7	9.1	3.5	5.3	3.8						6.0	6.0
TOTAL ASSETS	1373.5	1395.1	1402.7	1381.5	1411.3	1396.1	1412.9	1412.6						1521.7	1659.5
Undisbursed Commitments	489.1	483.8	477.3	445.2	458.5	439.7	436.9	428.2						529.7	639.1
Loans from IBRD and Others	500.1	497.1	492.1	491.3	482.4	482.4	480.6	477.6						550.7	630.5
Less: Undrawn Loans	62.1	62.1	62.1	62.1	52.1	52.1	32.1	32.1						116.2	163.6
Withdrawn Loans	438.0	435.0	430.0	429.2	430.3	430.3	448.5	445.5						434.5	466.9
Capital and General Reserve	446.4	476.3	495.4	507.1	522.5	526.1	527.5	538.9						557.5	553.5
TOTAL LIABILITIES AND CAPITAL	1373.5	1395.1	1402.7	1381.5	1411.3	1396.1	1412.9	1412.6						1521.7	1659.5
Operating Income	86.8	8.0	14.9	24.5	31.7	40.4	47.3	55.1						92.4	97.6
Less: Administrative Expenses	26.5	2.3	4.5	7.0	9.4	11.5	14.5	16.9						32.0	33.0
Charges on Borrowings	33.0	2.7	5.4	8.1	10.8	13.5	16.3	19.1						32.5	34.1
Income from Operations	27.3	3.0	5.0	9.4	11.5	15.4	16.5	19.1						27.9	30.5
Realized Gains on Sales	3.4	-	0.1	0.1	0.1	0.1	0.2	0.2						7.1	6.1
Provision for Losses	(10.6)	(0.9)	(1.8)	(2.7)	(3.6)	(4.5)	(5.4)	(7.3)						(10.5)	(16.5)
Recovery of write-off	0.6	-	0.5	7.0	7.0	7.0	7.0	7.0						-	7.0
NET INCOME	20.7	2.1	3.8	13.8	15.0	18.0	18.3	19.0						24.5	27.1 q/
MEMO Operations approved - IBRD to Countries	144	10	14	17	22	32	50	58						153	153
- IDA	103	4	7	13	16	18	31	37						103	103
- Total j/	247	14	21	30	38	50	81	95						256	256
- IFC k/	55	5	6	8	11	15	18	20						58	58
Amt. approved - IBRD to Countries	7644	785	914	1195	1399	1921	3250	3898						8600	8600
- IDA Credits	3838	67	90	236	343	396	871	934						3600	3667
- IFC Commitments	681	74	134	153	206	214	294	296						571	750
- Total	12163	926	1138	1584	1948	2531	4415	5128						12771	13017
Disbursements - IBRD to Countries l/	4363	381	809	1207	1674	2064	2480	2854						5200	5200
- IDA	1411	107	251	373	470	617	742	869						1750	1750
- IFC	312	43	62	127	171	196	281	302						340	440
- Total	6086	531	1122	1707	2315	2877	3503	4025						7290	7390
Gross Borrowing Approved - IBRD p/	5568	1243	2031	2226	2574	2574	3102	3290						6600	6015 p/
Less: Debt Retirement	2791	510	998	1413	1440	1560	2042	2095						2633	2745
Net Borrowing	2777	733	1033	813	1134	1014	1060	1195						3967	3270

a/ Original projection of May 15, 1980. Non-dollar items translated into US dollars at rates prevailing on March 31, 1980.

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

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

d/ Borrowings include delayed deliveries and undrawn portions.

e/ Amounts Receivable include undisbursed portions. Undisbursed amounts include both effective and non-effective portions, but exclude amounts sold or agreed to be sold.

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

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

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

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

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

k/ The number of IFC approvals excludes those under $250,000 representing primarily exercise of stock rights.

l/ Distribution of loan disbursements to countries of $5,200 million by quarter:

1st quarter	$1,207 million
2nd quarter	1,273 million
3rd quarter	1,320 million
4th quarter	1,400 million

m/ IBRD RATE ASSUMPTIONS FOR FY 1981 TRANSACTIONS:

	Forecast Orig. %	Forecast Rev. %	Actual to date %
1. Average return on investments.	9.0	9.0	8.9
2. Average interest rate on loan disbursements	8.0	8.0	8.0
3. Average cost of gross borrowings			
Weighted by amount and life	10.1	9.1	8.4
Weighted by amount only	10.0	9.3	8.5

n/ The amount shown is net of $73 million for grants for agricultural research and for control of onchocerciasis.

o/ Includes $24,298 million and $1,731 million callable from OECD and OPEC (excluding Nigeria and Indonesia) countries.

p/ The FY80 gross borrowing excludes $341 million borrowed in FY79 chargeable to the FY80 borrowing program and includes $585 million borrowed in FY80 chargeable to the FY81 borrowing program. This last amount is excluded from the revised FY81 gross borrowing.

q/ Adjusted for unexpected recovery of write-off.

Controller's
2/11/81

IBRD:T1:45-56

<u>INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT</u>

<u>Investment Holdings as of January 31, 1981</u>

<u>(US$ million equivalent)</u>

Maturity	United States Dollars	Euro Dollars	Pounds Sterling	Deutsche Mark	Euro Mark	Japanese Yen	Canadian Dollars	Italian Lira	Euro Lira	Belgian Francs	French Francs	Euro Francs	Other	Total
Up to 6 mos	956.6	815.1	65.6	9.5	41.6	92.5	34.2		75.2	15.3	1.3	20.5	89.0	2,216.4
6 mos to 1 yr		22.4				3.9	16.0	56.5			5.3		32.8	136.9
1 to 2 yrs	1,045.8	174.6		4.7		76.9	2.5	22.6		14.1	1.6	7.8	55.6	1,406.2
2 to 3 yrs	526.2	399.1		73.5			17.2	5.5		30.0	17.0		59.7	1,128.2
3 to 4 yrs	653.1	123.2	200.0	169.9			58.0			72.3	2.2	16.1	28.9	1,323.7
4 to 5 yrs	1,049.0	34.6	114.2	76.0			42.6			7.6	26.5	28.0	31.4	1,409.9
Over 5 yrs	207.4		258.8								.4			466.6
Total	4,438.1	1,569.0	638.6	333.6	41.6	173.3	170.5	84.6	75.2	139.3	54.3	72.4	297.4	8,087.9

<u>Yields</u>
<u>(%)</u>

Maturity	United States Dollars	Euro Dollars	Pounds Sterling	Deutsche Mark	Euro Mark	Japanese Yen	Canadian Dollars	Italian Lira	Euro Lira	Belgian Francs	French Francs	Euro Francs	Other	Total
Up to 6 mos	15.23	12.98	14.37	7.13	9.00	6.47	13.18		18.32	10.60	7.74	12.29	11.51	13.72
6 mos to 1 yr		8.30				8.94	11.52	12.91			10.21		10.56	11.21
1 to 2 yrs	8.58	9.01		5.38		8.94	12.16	12.45		8.86	10.16	11.05	9.36	8.76
2 to 3 yrs	9.52	10.49		6.49			9.98	14.15		10.03	11.72		12.16	9.88
3 to 4 yrs	9.98	10.52	12.99	7.80			10.47			11.68	11.53	11.99	12.46	10.40
4 to 5 yrs	10.24	12.52	13.29	7.79			10.74			11.27	12.74	12.94	13.12	10.60
Over 5 yrs	12.49		11.98								13.38			12.21
	10.90	11.64	12.77	7.46	9.00	7.62	11.15	12.86	18.32	10.90	11.94	12.34	11.40	11.11

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

Controller's
2/11/81

FIN:T2:20-27

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through Mr. Moeen A. Qureshi) MAQ

DATE: February 11, 1981

FROM: Eugene H. Rotberg EHR

SUBJECT: Proposed Borrowing Operation

There is attached for Mr. McNamara's approval the final Board paper for a public issue in the Euro-yen market. We would plan to circulate this document on Thursday, February 12, for consideration by the Board on February 17. The document has been cleared with the Legal Department.

The terms and conditions stay essentially as outlined in the memorandum of February 4, 1981 and as submitted to the Executive Directors at Tuesday's Board Meeting, i.e., a life of 10 years straight at an interest rate of 8-3/4%, payable annually, and an issue price between 99.50 and par. Assuming an issue price of 99.50, the bonds would yield 8.64% and the cost would be 8.95%, after taking into account an underwriting commission of 1-3/4%, fiscal agency fees, and all other expenses. The final terms will be determined in the morning of Tuesday, February 17. The break-even point of the cost for a dollar borrowing of the same maturity (14.20%) would be around 60%.

Attachment

For consideration on
February 17, 1981

R81-

FROM: The President

February 12, 1981

PROPOSED BORROWING IN JAPANESE YEN

1. The Executive Directors at their meeting of February 10, 1981 considered a proposal that the Bank borrow ¥ 20,000,000,000 (US$ 98,039,216 equivalent*) through the issuance of 10-year bonds in the Euro-yen capital market (R81-17). At that meeting, the Board agreed in principle to proceed with this borrowing, subject to later approval of the definitive terms.

There is attached a draft Resolution (Attachment I) authorizing the issuance and sale by the Bank of ¥ 20,000,000,000 principal amount of bonds in the Euro-yen market, which will be considered by the Executive Directors at their meeting on Tuesday, February 17, 1981, at which time the definitive terms for this issue would be proposed to the Executive Directors.

2. The principal terms of the proposed issue would be as follows:

(a) Principal Amount:	¥ 20,000,000,000.
(b) Term:	10 years, non-callable.
(c) Interest Rate, Price, Cost to the Bank and Break-even Point:	To be discussed at the meeting of the Executive Directors. Interest would be payable annually on February 20. Underwriting and Management commissions would total 1.75%.

Distribution:

Executive Directors and Alternates
Senior Vice President, Finance
Senior Vice President, Operations
Vice President and General Counsel
Vice President and Treasurer
Vice President and Controller

*Based on the market rate as of February 10, 1981 of US$ 1=¥204.

(d) Underwriting: The Bank would enter into a Subscription Agreement with The Nomura Securities Co., Ltd., S.G. Warburg & Co. Ltd., Daiwa Europe N.V., The Nikko Securities Co., (Europe) Ltd., Yamaichi International (Europe) Limited, Bank of Tokyo International Limited, IBJ International Limited, LTCB International Limited and Nippon Credit International (HK) Ltd., as Managers, and a Fiscal and Paying Agency Agreement with The Bank of Tokyo, Ltd., as Fiscal Agent and Principal Paying Agent, and others, as Additional Paying Agents and Replacement Agent. The Subscription and Fiscal and Paying Agency Agreements would be substantially similar to those used for the Bank's first Euro-yen transaction.

(e) Offering and Settlement: Commencing February 18, the bonds would be offered to the public outside Japan and the United States by the Managers and an international syndicate of investment and commercial banks and securities firms in Europe and Singapore. The proceeds of the issue would be paid to the Bank on February 26, 1981.

3. The proposed borrowing would be charged against the FY81 Borrowing Program. The amount borrowed to date applicable to FY81, including the amount of the proposed Euro-yen issue, would be $4,269.5 million (See Attachment II).

4. Recent market yields of selected World Bank bond issues are given in Attachment III.

Robert S. McNamara

Legal Department
February 11, 1981

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

(DRAFT)

RESOLUTION NO. 81-__

Authorizing the Issuance and Sale of ¥20,000,000,000
Principal Amount of ____% Yen Bonds of 1981, due February 20, 1991

WHEREAS International Bank for Reconstruction and Development (hereinafter called the Bank) has determined, subject to any governmental approvals required under the Articles of Agreement, to borrow Japanese Yen in markets outside Japan, and for that purpose to issue and sell an issue of bonds of the Bank in the aggregate principal amount of ¥20,000,000,000, to be known as the ____% Yen Bonds of 1981, due February 20, 1991, of the Bank.

NOW THEREFORE BE IT RESOLVED AS FOLLOWS:

1. The Bank hereby creates an issue of its bonds to be known as the ____% Yen Bonds of 1981, due February 20, 1991, of the Bank (hereinafter called the Bonds); to be limited to the aggregate principal amount of ¥20,000,000,000 (except for Bonds issued in lieu of or in exchange for stolen, lost, destroyed or mutilated Bonds); to bear interest at the rate of ____% per annum from February 20, 1981 payable annually on February 20 of each year, the first payment to be made on February 20, 1982; and to mature on February 20, 1991.

2. The Bonds shall be bearer Bonds dated February 20, 1981 with annual interest coupons, and shall be otherwise in such form and in such denominations as shall be approved by any of the persons specified in paragraph 4 of this Resolution.

3. The Bonds shall be signed in the name and on behalf of the Bank with the facsimile signatures of the President and the Vice President and Treasurer of the Bank, and a facsimile of the Bank's official seal shall be printed, lithographed or engraved thereon. The coupons shall bear the facsimile signature of the Vice President and Treasurer of the Bank.

4. The President, the Senior Vice President, Finance, the Vice President and Treasurer, the Director, Treasury Operations and Deputy Treasurer, the Vice President and General Counsel, the Associate General Counsel, the Director, European Office and the Director, Tokyo Office are fully authorized, jointly and severally, in the name and on behalf of the Bank, to sell for Japanese Yen at any time all or any part of the Bonds at the price of ____% of par less a commission of 1.75% of par and upon such other terms and conditions as shall be approved by any of the persons hereinabove specified, to deliver the Bonds and to receive or arrange for the payment therefor.

5. Pending the preparation and delivery of the definitive Bonds, one or more temporary bonds in the aggregate principal amount of the Bonds to be issued may be executed and delivered to the purchasers. Such temporary bond or bonds shall be in such form as shall be approved by, and shall be signed manually in the name and on behalf of the Bank by, any of the persons specified in paragraph 4 of this Resolution.

6. Any of the persons specified in paragraph 4 of this Resolution are hereby authorized, jointly and severally, in the name and on behalf of the Bank, to execute and deliver any and all such other documents, to enter into such other agreements and execute, publish and deliver such

notices, reports and documents, and to do any and all such other acts and things as any of the persons specified in paragraph 4 of this Resolution shall deem necessary or advisable in order fully to carry into effect the purposes of this Resolution.

ATTACHMENT II

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ACTIONS TO BE CHARGED AGAINST BORROWING PROGRAM FOR FISCAL YEAR 1981

Country/Institution	Approved	Terms (Yrs.)	Average Life (Yrs.)	Amount (million) Currency	Amount (million) $ Equiv.	Yield to Initial Purchaser-%	Cost to IBRD-%	Recent Market Yield-%
Kuwait/Germany (Private)	6/3/80	8.0	8.0	DM 150	84.8	8.41	8.69	N.A.
Euro-Bonds/US$	6/9/80	7.0	7.0	-	300.0	10.00	10.42	13.43
Euro-Bonds/US$	6/10/80	5.0	5.0	-	200.0	9.52	9.99	13.34
Switzerland	6/24/80	15.0	13.0	SwF 100	61.3	5.79	6.23	6.39
Germany	7/3/80	10.0	10.0	DM 500	284.4	7.94	8.26	9.38
Saudi Arabia	7/3/80	10.0	10.0	DM 200	113.7	8.19	8.22	N.A.
Switzerland (Private)	7/15/80	7.0	7.0	SwF 150	94.5	5.79	6.11	N.A.
Germany (Private)	7/15/80	5.0	5.0	DM 152	87.4	8.30	8.30	N.A.
Germany (Private)	7/22/80	10.0	10.0	DM 140	80.1	8.08	8.08	N.A.
Germany (Private)	7/22/80	15.0	10.5	DM 10	5.7	8.06	8.06	N.A.
Saudi Arabia (Private)	7/29/80	7.0	6.5	SwF 175	109.8	6.03	6.04	N.A.
Saudi Arabia (Private)	7/29/80	8.0	7.5	AS 1,080	87.6	9.20	9.21	N.A.
Saudi Arabia (Private)	7/29/80	8.0	7.0	£ 200	105.2	9.87	9.88	N.A.
Saudi Arabia (Private)	7/29/80	10.0	8.5	SRls 330	99.5	9.50	9.51	N.A.
Germany (Private)	7/31/80	8.0	8.0	DM 200	114.2	7.65	7.91	N.A.
Germany (Loan)	8/5/80	12.0	12.0	DM 200	113.5	7.94	7.94	N.A.
Germany (Loan)	8/5/80	12.0	12.0	DM 200	113.5	7.94	7.97	N.A.
India (Private)	8/5/80	7.0	7.0	DM 100	56.8	7.79	7.80	N.A.
Central Banks (Private)	8/8/80	2.0	2.0	-	299.0	10.17	10.17	N.A.
Germany (Private)	8/8/80	10.0	10.0	DM 150	84.5	7.77	7.96	N.A.
Switzerland (Loan)	8/26/80	6.0	6.0	SwF 200	120.7	6.06	6.12	N.A.
Japan	9/9/80	15.0	12.3	¥ 30,000	138.6	8.61	8.91	8.65
Germany (Loan)	9/9/80	10.0	8.0	DM 100	56.3	8.26	8.26	N.A.
Central Banks (Private)	9/16/80	4.0	4.0	SwF 200	122.9	5.875	5.83	N.A.
Switzerland	10/21/80	10.0	9.5	SwF 100	61.0	5.91	6.39	5.95
Japan (Private)	10/27/80	6.5	6.5	¥ 34,000	163.9	8.50	8.50	N.A.
Switzerland (Private)	11/25/80	5.0	5.0	SwF 200	115.6	5.91	6.27	N.A.
Japan (Loan)	12/9/80	20.0	17.5	¥ 40,000	183.6	8.90	8.94	N.A.
Japan (Loan)	12/9/80	20.0	17.5	¥ 20,000	91.8	8.90	8.94	N.A.
Germany	12/9/80	10.0	10.0	DM 250	128.7	9.16	9.49	9.17
Third Window	3/22/76	13.0	13.0		8.5	8.50	8.50	N.A.
Germany (Private)	1/12/81	5.0	5.0	DM 250	129.5	9.80	9.80	N.A.
Switzerland	1/27/81	10.0	9.5	SwF 100	54.9	5.98	6.45	6.18
Central Banks (Private)	2/10/81	2.0	2.0		300.0	14.00	14.00	N.A.
			7.8		4,171.5		8.54	
Euro-Bonds/yen (Proposed Public Issue)		10.0	10.0	¥ 20,000	98.0			
			7.8		4,269.5			

N.A. - Not Applicable

Projected Average Returns/Costs on IBRD Assets and Liabilities for FY81

	Balances as of June 30, 1981 (in $ billions)	Returns/Costs 1/ (in %)
Cash and Investments	9.9	9.0
Receivable from disbursed loans	29.2	8.0 2/
Other Assets	1.7	-
Total Assets	40.8	7.9
Borrowings	31.7	7.4
Other Liabilities	1.2	-
Capital and Reserves	7.9	-
Total Liabilities, Capital and Reserves	40.8	5.8

1/ Current Yields/Costs are:

Investments	10.91
Borrowings Outstanding	7.42
Borrowings to date - FY81	8.54

2/ Interest on loans and commitment charges as a percent of average disbursed loans outstanding.

ATTACHMENT III

Recent Market Yield on Selected World Bank Bond Issues

Issues		Recent Market Yield %
7%	Canadian dollar Bonds of 1968, due 2/15/93	13.75
7-1/4%	Belgian Franc Bonds of 1972, due 3/1/84	12.79
7-3/4%	Deutsche Mark Bonds of 1979, due 7/1/91	9.50
6-1/2%	Japanese Yen Bonds of 1978, due 7/28/93 (Ninth Series)	8.77
6-1/4%	Yen Bonds of 1977, due 8/15/84	8.80
8%	Netherlands Guilder Bonds of 1976, due 5/16/86	9.77
5-7/8%	Swiss Franc Bonds of 1980, due 7/17/95	6.39
8.85%	United States dollar Bonds of 1976, due 12/15/85	13.27
7-3/4%	United States dollar Bonds of 1977, due 8/1/87	13.41
8.35%	United States dollar Bonds of 1977, due 8/1/2002	13.47