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GULF CRISIS

GULF CRISIS -- BANK RESPONSE

We are working with affected countries to assess the impact.

While Egypt, Jordan and Turkey are seriously affected by the Crisis and have so far received most attention, many other developing countries are also seriously affected.

We have initiated action to provide direct support to affected countries -- our policies provide great flexibility to respond quickly in a crisis situation like this.

For example:

- we can accelerate disbursements from existing loans and credits and advance new lending operations

- we can provide financing for facilities needed by returning migrant workers

- we can help coordinate donor support

- and we can assist countries in formulating appropriate policy responses to the Crisis.

I have been very pleased to see the quick response by many bilateral donors, particularly Japan, who have pledged significant financial support for the affected countries. This support must now be channeled and used in an effective manner.

It is too early to tell how great and how lasting the impact of the Gulf Crisis will be on developing countries. Obviously, the longer the oil price is high, the greater the impact. Special efforts to mobilize additional resources to assist affected countries may be required. And the lesson of experience from earlier oil price shocks is that policy adjustment would have to be deepened.

GULF CRISIS

TALKING POINTS

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- we can help coordinate donor support and, if necessary, help mobilize additional support; and

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It is too early to tell how great and how lasting the impact of the Gulf Crisis will be on developing countries. Obviously, the longer the oil price is high, the greater the impact.

Further multilateral efforts to mobilize additional resources to assist affected countries may be required later this year. We would be prepared to take the lead. One option would be to raise funds for a special facility.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: September 8, 1990

CONFIDENTIAL

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi MAQ

EXTENSION: 82006

SUBJECT: Bank Response to the Gulf Crisis

1. As you know, we are in the process of preparing a country by country analysis of the effects of the Gulf crisis on our borrowers. The preliminary results of this work will be distilled into a note for the Board, which will be sent to you and the PC on Tuesday, with a Board briefing scheduled for Friday, September 14. This briefing will update and expand that given 10 days ago by PRE, and will include some discussion of the general lines of response required by the borrowers themselves, as well as rough estimates of additional financing required and--in general terms--what we would propose to do by way of assisting countries in coping with the effects of the crisis.

2. It is now clear, however, that special programs of assistance will be at the heart of the Annual Meeting discussions, notwithstanding the high degree of uncertainty about the magnitude and duration of the crisis and its economic effects. Thus, I do not believe that we can go into the Annual Meetings without some fairly clear ideas as to what role the Bank can play in this particular issue.

3. Accordingly, I have asked Operations' managers, particularly the Country Directors responsible for the most immediately impacted countries, to develop within a few days quite specific ideas as to how we can assist individual borrowers in dealing with the new burden of adjustment that the crisis has created for them. A framework for what we might do is set out below.

4. At the outset, we need to recognize that there are a number of complications in defining an expanded role for the Bank. First, as noted already, we don't know how long the crisis will last and what its effects will be on oil prices over the medium term. Thus, it is difficult to prescribe adjustment programs at this stage, though the prudent approach is clearly to expect the higher prices to be sustained for some period of time. Moreover, the magnitude of the crisis for many countries appears to be well in excess of the amount of financial assistance likely to be available. Second, whatever we do, it will represent only a limited contribution to the incremental financing requirements of the most seriously affected countries. The amount of IDA money is fixed. And many of the IBRD countries already had limited capacity to take on additional debt on commercial terms. The crisis has reduced this capacity even further. Even in the middle-income countries, therefore, the major part of the incremental financing will need to be on concessional terms. Additional debt relief will be required in a number of countries.

5. Third, no special program of assistance covering all borrowers will stand a chance at this stage. Such a program would only be justifiable on the basis of a sustained increase in the price of oil. Thus we need to think in terms of a program targeted on a narrower group of countries, i.e., those for which the loss of remittances and other invisible earnings plus the need to repatriate large numbers of refugees will be particularly burdensome. Fourth, we nonetheless need to find a way of responding, at least modestly, to the needs of all our borrowers. This applies _a fortiori_ to the poorest countries, particularly those in Africa, where the impact of oil prices is most severe in terms of income effects.

6. Finally, there is a significant danger that the crisis and the associated emergency financing that will now become available to some countries will set back our structural reform programs. Thus, we need to find a way to use our limited financial leverage to shape the way in which emergency assistance is provided. Ideally, we would want to be in a position of coordinating this assistance in individual countries.

7. These considerations suggest that our response should be made up of three parts, intended to put us in a position to convene aid coordination meetings as necessary. To this end, we propose to use our lending program (and economic work) as the basis for coordinating emergency assistance in the most immediately impacted countries and, more generally, to catalyze additional or reprogrammed assistance to all countries that are significantly affected by the higher oil prices.

8. The first component will need to focus on what we can do with our existing lending instruments and portfolio. Here the main elements would be those that we have undertaken in the past, namely a reshaping of our lending program and disbursements pipeline so as to adapt them to altered priorities on a country by country basis. We are currently looking at the scope for several specific measures on a country by country basis: acceleration in the timing of tranche releases, supplements to existing adjustment loans, advancing the timing of planned new adjustment loans and credits, supplements to existing project loans and accelerating disbursements on project loans. However, given the changes in our lending since 1980, the effects of such measures will be more limited on this occasion. Also, acceleration of project disbursements entails a temporary relaxation of operational policies on cost-sharing. The most difficult task with respect to enhanced adjustment lending will be to get countries to take sufficient measures to maintain present programs (needed for accelerated releases and supplements) or to advance additional policy reforms (needed for acceleration of planned lending).

9. The second component--focussed on the most immediately impacted countries--should be a special type of emergency recovery loan. These loans would be for the specific purpose of enabling countries to deal with the costs of resettling refugees and finding new sources of income/employment to make up for the loss of remittances. Barring a quick resolution of the Gulf crisis (i.e., an immediate Iraqi withdrawal), the effects on worker remittances and

other invisible earnings from the Middle East is likely to be protracted. The size and composition of such operations would be country-specific, but would generally be designed to cover housing and urban development, training and credit for small and medium-sized industries. The basic concept here is analogous to other emergency lending by the Bank, e.g., for earthquake reconstruction. In this case, the "disaster" is a significant shock to a borrower's invisible earnings coupled with emergency resettlement costs. We would seek to use such loans as the anchor for expanded cofinancing efforts.

10. The main issues associated with this approach include:

- First, what criteria should govern eligibility for such loans? Related to this, can the criteria be drawn in such a way that the appropriate countries benefit without eligibility becoming so broad that the current aversion to general programs would block the initiative? We are currently working with a list of 10 countries--Bangladesh, Egypt, India, Jordan, Pakistan, Philippines, Somalia, Sri Lanka, Sudan and Turkey--where such effects are significant and where the overall effect of all factors including oil prices exceeds 1% of GDP or 10% of exports.

- Second, can we mount such operations fast enough to be effective in dealing with the urgent need for additional balance of payments support? Here the answer is clearly yes, but we will need to work out the cost in terms of disruption to existing work programs and incremental administrative budget.

- Third, will such loans give us the instrument needed to anchor our role in coordinating overall emergency assistance? Obviously, the impact of such loans will vary from case to case, but I believe that they will be seen as a constructive and appropriate response by the Bank, especially in conjunction with the reprogramming of other lending to the country.

Finally, we will need to make certain that any special legal issues can be dealt with satisfactorily.

11. <u>The third element of our response should be designed to deal with problems of the other low income countries.</u> This is mainly an issue of finding some further financial assistance to cope with higher oil prices. There may be some scope for raising a supplement to the SPA, and I have asked Kim Jaycox to start canvassing the donor countries to see what might be done. We also have the special problem of IDA-only and weak blend borrowers such as Bangladesh and Sri Lanka. They will need some additional concessional funds; it would be highly useful if we could increase the amount of IDA money going to them. One possibility would be to approach the Saudis and other Gulf states for special supplemental contributions to IDA 9, where it would be understood that these funds would be used in the most seriously affected countries.

12. On the basis of the preliminary assessments now being completed--and subject to your overall approval--Operational managers will review these assessments with individual country delegations and donors during the Annual Meetings. Depnding on the outcome of these discussions, the objective is to be in a position to convene special aid coordination meetings for the most immediately impacted countries soon after the Annual Meetings. For some of these countries (e.g., India, Pakistan, Sri Lanka), there are existing aid coordination mechanisms, and this may be a matter of simply accelerating the timing of the next meeting. For others, we will need to organize such mechanisms, if requested to do so by the country concerned. Whether to take on such a role will need to be evaluated on a case by case basis, taking account of the extent and quality of policy dialogue and economic performance. We will, of course, work closely with our IMF counterparts in this process.

13. If you agree with the overall thrust of these ideas, I would propose to include a general reference to them in the note for the Board and suggest that you discuss them in more detail with selected Directors between now and the Annual Meetings.

cc: Members of the President's Council

bcc: Messrs. Jaycox, Karaosmanoglu, Husain, Wapenhans, Kashiwaya

Messrs. Asanuma, Chopra, Kaji, Vergin, Wiehen

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: Tuesday, September 4, 1990

STRICTLY CONFIDENTIAL

TO: Messrs. Conable, Qureshi, Wapenhans

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: The Role of the Bank in the Gulf Crisis

I. Background

1. During my stay in Japan from August 28 to August 31, the Japanese Government (GOJ) sounded me out regarding the possibility of cofinancing to assist the Gulf-rim countries, especially Turkey, Egypt and Jordan (hereinafter called "frontline countries"). GOJ is trying to pursue the most effective measures to assist those countries affected by the embargo against Iraq. There have been different views within GOJ. One is to shortly announce bilateral assistance to these countries with specific figures, thus demonstrating to the world the strong support by GOJ. This has been supported by the Ministry of Foreign Affairs (MOFA) and many politicians. The other is to take full advantage of IFIs, with a view to achieving international coordination among donors, which was proposed by MOF and subsequently supported by the U.S. Treasury. In parallel with this decision-making, GOJ has closely discussed with the U.S., European donors and IFIs how to obtain multilateral cooperation to support the frontline countries. This issue will be discussed at the forthcoming G-7 Deputies' meeting on September 10-11. By that time GOJ hopes to decide its position in close coordination with the Bank, the IMF and the U.S. Government. The U.S. is scheduled to announce its own policy on these issues at the Annual Meetings. However, the U.S. is still considering various possible measures, and no consensus has been reached within its own Government. Mr. Utsumi, the Vice Minister, visited the U.S. Treasury, the Bank and the IMF last week while the Finance Minister Mr. Hashimoto visited major European donors.

2. The situation at the present time is fluid, but it is likely that many donors expect leadership from, or at least close coordination with IFIs in supporting the frontline countries and their neighbors. This may stem from two reasons. First, bilateral assistance should be consistent and coordinated. Secondly, it is politically imperative to achieve a strong link among donors, including Arab countries, in order to address the Gulf crisis (similar to the embargo endorsed by the U.N Security Council's decision). The reaction of IFIs and donors to MOF's approach differ at this stage, even within the same institution. It seems to me, however, that it is very important for the Bank to carefully follow the movements of major donors and pursue the right approach to this issue, with a view to maintaining the Bank's good relationships with donors as well as eligible countries in meeting the challenge created by the Gulf crisis. In this context, this memo summarizes the information I have been able to obtain regarding movements by donors, especially GOJ, which is expected to become one of the largest donors to these countries. For your information, it also contains what I learned about Mr. Utsumi's meeting with Mr. Conable from GOJ sources.

II. GOJ

3. On August 29 and August 30, GOJ announced that it would appropriate $1 billion equivalent in emergency assistance to the Gulf region countries to support their transportation, basic necessities and medical care activities. (It is said that Finance Minister Mr. Hashimoto exerted strong leadership to reach this consensus). In addition, GOJ will extend a substantial amount of assistance on concessionary terms to the Gulf region countries, especially Jordan, Turkey, and Egypt which face serious economic difficulties caused by the Gulf crisis. In parallel, GOJ will work with those IFIs concerned to support these countries. Without delay, GOJ will extend a $10 million grant to Jordan to support the refugees from Iraq and Kuwait.

III. Consultations between the U.S. and GOJ

4. On August 30 Mr. Utsumi talked with Messrs. Mulford and Dallara of the U.S. Treasury on assistance to these frontline countries, although the U.S. is still in the brainstorming stage and has as yet reached no conclusion.

(1) The U.S. Treasury was critical of the State Department's idea of creating an "Arab Fund" financed by Saudi Arabia, the Emirates and other donors because Saudi Arabia may not like such a fund.

(2) Mr. Utsumi suggested a case-by-case approach to the front line countries utilizing the coordinating role of IFIs. For example, in the case of Egypt, the G7 would press the IMF to create a Committee in which the Saudis and G7 would participate. In the case of Turkey, the Bank would form such a committee, in view of the less important role of the IMF in that country. The U.S. Treasury showed a strong interest in this proposal.

(3) The U.S. proposed to estimate the short-term (through end 1990) and middle-term (through 1991) financial needs of these front line countries. For the short-term needs, the donors need not necessarily stick to strict conditionality in view of the emergency. For medium-term needs, due consideration should be paid to conditionality. Mr. Utsumi suggested that the short-term needs should be restricted for refugees and other purposes, and in the case of medium-term needs, donors should take full advantage of IFIs to fill the balance of payments gap through their program or project financing. Mr. Dallara tentatively estimated the total financial needs of the three frontline countries as $9.1 billion, of which $2.8 billion is for short-term needs (to December 1990), and $6.3 billion for medium-term needs (1991). He expected that short-term assistance would consist of grant, concessionary loans and commodity aid in the form of bilateral aid. The medium-term assistance includes grant, concessionary loans and export credits possibly through multilateral approaches.

(4) Egypt: Mr. Utsumi is firmly opposed to the concept of the "Fund monitored Program" proposed by Mr. Camdessus in which the IMF will not contribute from its own resources, but would monitor the donors' contribution under the shadow program. Mr. Mulford sympathized with Mr. Utsumi's view, but did not wish to be quoted at this stage, pointing out that the IMF has difficulty in contributing new money to the borrower that falls short of IMF conditionalities. Mr. Utsumi suggested the Bank should consider the extraordinary nature of the situation, quoting the precedent case of the moderate conditionalities for Cote d'Ivoire. Mr. Dallara is supportive of using IFIs and suggested IMF's stand-by (e.g. 40% of quota) with moderate conditionality, an IDA credit from IBRD, and IMF's ESAF.

(5) Jordan: The U.S. has not decided what to do for Jordan at the moment.

(6) Mr. Dallara was impressed with the tough approach by the Bank and IMF towards Egypt and Turkey.

IV. Discussions between the Bank and GOJ

(1) Egypt: Mr. Conable told Mr. Utsumi that the slow pace of economic reform in Egypt, and the country's lack of cooperation with the IMF is a problem, although the Bank is more flexible in pursuing its reduction of the budget deficit than the IMF, which has insisted upon an increase in energy prices. Mr. Utsumi pointed out the unrealistic nature of the IMF's conditionality under the current situation, and said that GOJ is ready to provide an adequate cofinancing amount if the Bank comes through with its financing.

(2) Turkey: Mr. Utsumi understood that Mr. Conable has instructed that disbursements of the Bank's loans to Turkey be delayed due to non-compliance with the conditionalities. He is not satisfied with the current level of inflation (from 60% to 70%) and requires agreement with the IMF's program as a prerequisite to the Bank's lending. He also pointed out that Secretary of State Baker does not understand this and has never tried to influence the Turkish Government. He urged GOJ to persuade Turkey to comply with the IMF's program.

(3) Mr. Utsumi advocated a flexible approach under the current emergency situation. He expects strong leadership by Mr.

Conable in materializing IBRD lending, which would facilitate bilateral support through cofinancing. Mr. Conable, acknowledging the need for a flexible approach, asked Mr. Utsumi to persuade Mr. Camdessus, and the borrowers concerned to come to an agreement on some kind of support of the IMF program, whatever it may be.

V. Consultations between the IMF and GOJ

4. On August 30 Mr. Utsumi discussed Egypt with the Mr. Camdessus. Mr. Utsumi urged him to consider what the IMF can do for Egypt under the emergency situation. He asked the IMF to use its own resources like ESAF or stand-by, even if it amounts to only a symbolic sum, rather than only administering the donors' contribution under the shadow program. The Managing Director took a hard line on preserving the high standards of conditionality. He is said to have categorically rejected all attempts by the U.S. Germany and France to use the IMF's money. After examining the economic situation in Egypt he has reached the conclusion not to release any money now. He suggested that donors create a "Multilateral Assistance Fund" under the management of the IMF. Mr. Utsumi argued against Mr. Camdessus' position and suggested that the Bank should play a central role in aid coordination unless the IMF cooperates on Egypt, although he is worried about the discrepancies between the IMF and the Bank as was the case in Argentina. The Managing Director pointed out that Secretary of the Treasury, Mr. Brady, understood his position perfectly. The IMF cannot damage the conditionality and once the IMF gives way to Egypt, Germany may urge the IMF to finance Hungary, and the U.S.may urge financing for Peru, Ecuador, Trinidad and Tobago. Finally, Mr. Utsumi suggested the possibility of using IFIs other than the IMF for aid coordination for these countries.

5. On August 31 Mr. Camdessus informed the Japanese ED about his discussions with Mr. Brady to the effect that if Egypt takes appropriate economic action to facilitate the IMF's financing, he will make every effort to pursue the possibility of a back-loaded standby (SBA) or a CFF, if the conditions are met. Mr. Brady appreciated Mr. Camdessus' view. However, if Egypt's economic reforms do not meet the criteria of SBA or CCF, the IMF may consider the Fund Monitored Program proposed by Mr. Camdessus. In this case the economic policy must be sufficiciently tight to facilitate the $2.6 billion rescheduling of the Paris Club. Even if the G7 agrees with this scenario, the Paris Club cannot reach consensus without agreement of other donors. The IMF will send a small mission consisting of high-level staff on September 4 to consider the details of economic policy. Everything depends upon the substance of Egyptian economic policy.

6. Mr. Camdessus later informed the Japanese ED that the Egyptian Foreign Ministry conveyed to him the Prime Minister's decision that Egypt will fully comply with the economic adjustment program regardless of the Gulf crisis and make efforts towards agreement with the IMF. Although this is encouraging information, Mr. Camdessus wishes to watch the future developments of Egyptian economic policy.

VI. The Role of the Bank in the Gulf Crisis

7. It is essential for IFIs to preserve the conditionality of economic reform programs as their raison d'etre. IFIs, however, should be sufficiently flexible and practical to respond to borrowers' emergency situations. We should make our best efforts to avoid conflicts among IFIs in pursuing the economic adjustment policies of our borrowers. We should also consider the reasons why borrowers cannot comply with the IMF's program especially when it comes to domestic and political reasons. If major donors urge the Bank to coordinate aid or cofinancing we should consider this request very positively, even though the borrower finds it politically difficult to reach an agreement with the IMF (e.g. Turkey). If the IMF rejects financing due to the borrowers' non-compliance with their program, as in the case of Egypt, the Bank should make every effort to mediate them. If this is not possible, the Bank should consider coordinating the donors' contributions with its own lending, as long as the borrower complies with the Bank's program and is in need of such emergency assistance, and thus rescue the borrowers from real economic chaos.

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Document Date	Document Type
22 August, 1990	Memorandum

Correspondents / Participants
To: Executive Directors
From: Ernest Stern, FINSV

Subject / Title
Iraq and Kuwait

Exception(s)

Additional Comments
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Sherrine M. Thompson	October 17, 2022

BBC

COORDINATION OF DEVELOPMENT ASSISTANCE IN THE MIDDLE EAST REGION

Background

1. This discussion note has been prepared by the World Bank and IMF staff at the request of the Gulf Crisis Financial Coordination Group (GCFCG). At the March 11, 1991 meeting, participants agreed that the GCFCG had performed a highly useful function and should continue to follow up on existing commitments and disbursements of financial assistance to the three "frontline" countries (Egypt, Jordan and Turkey). Participants also had a preliminary exchange of views about how future financial assistance for reconstruction and development in the region might be coordinated. This note discusses organizational mechanisms for coordinating such financial assistance.

2. The note first briefly outlines the principal objectives of the economic programs that could be supported by a multilateral development assistance effort. It then discusses the principles that should guide the coordination of such assistance. Finally, possible mechanisms that satisfy these criteria are presented for discussion. The success of the economic program outlined here would obviously also depend on sufficient progress being made in parallel efforts to settle the political issues in the region, as well as to control military expenditures.

3. Financial assistance to countries in the Middle East region should, as in other cases, seek to facilitate, rather than substitute for, the sustained implementation of sound economic policies. In this regard, it is also important that, as earlier envisaged for the period after an initial phase, resources mobilized via the GCFCG or a successor group would be coordinated with the implementation of comprehensive adjustment policies, including those supported by or otherwise endorsed by the Bank and Fund.

Objectives

4. Countries in the region have been affected to varying degrees by recent events in the Middle East and face an array of economic challenges. For some countries in the region, the most immediate task lies in emergency rehabilitation and physical reconstruction. Other countries in the region must respond to the continuing adverse impact of trade disruptions, loss of remittance and tourist receipts and higher oil import bills--factors which, in some cases, compounded already serious financial imbalances and deep rooted structural problems. While the external environment has started to return toward pre-crisis conditions, there is a continuing need for economic recovery assistance, as well as financial support for the implementation of economic adjustment and restructuring programs.

5. More fundamentally, there is a need for multilateral assistance for a long-term economic program going beyond the immediate post-crisis needs and covering a broader set of countries in the region than the three front-line states. The region is characterized by major disparities in resource endowments and income levels. While demographic trends are varied--and some countries have been labor scarce--in most countries, pressures from high population growth rates cause severe social strains, particularly in the

rapidly growing urban areas. Starting from already high levels, unemployment is expected to increase in the labor-surplus countries, with the bulk of the unemployed concentrated in the large urban centers. The Gulf crisis carries the potential for further restricting labor mobility in the region. Fear about long-term instability may lead to acceleration of capital flight. Unless fundamental changes are made to limit and reverse these trends, disparities could well grow even wider.

6. An important cause of the economic problems in the region lies in their own domestic economic policies, dirigiste orientation of institutions and administrative governance systems. Past policy failures have often been accompanied by inappropriate expenditure priorities and very high military expenditures. Capital transfers alone would not be enough to transform these economies, if the economic environment is not changed. In fact, large resource transfers carried out in the context of policy deficiencies could worsen the situation over the longer term, both because they could reduce the pressure for reforms and because they could lead to further waste and inefficiency. In any case, the magnitude of the transfers required is so formidable as to make it highly unlikely that sufficient funds could be found, even if this were otherwise desirable. Post-war aid should, therefore, be structured in a manner that promotes fundamental changes in economic management and leads to a gradual replacement of official transfers by private capital flows. Significant private investments, however, will only occur if a more hospitable business environment is created in the capital-poor countries.

7. The only sustainable way to lessen income disparities is to improve the productivity and efficiency of the countries within the region. This approach would emphasize a private sector-led growth within the context of liberalized outward-oriented economies. It would be based on a combination of: (a) domestic policy reforms to establish a sound macroeconomic environment and improve the efficiency of resource allocation and use within countries; and (b) regionally harmonized common infrastructure projects, and consultations on policy and regulatory frameworks to exploit complementarities in factor endowment by removing barriers to capital and labor mobility and to reap efficiency gains through the economies of larger markets and increased competition. Regional policy coordination would be a step towards, and not a substitute for, greater integration with international markets; improved regional cooperation should not discriminate against countries outside the region. The main benefits and justifications for the regional efforts, at least initially, derive from the building of a common political consensus in support of the liberalization of economic policies on a region-wide basis and soundly designed infrastructure and environment projects in areas of obvious complementarities. Such region-wide cooperation could produce substantial economic efficiency and welfare gains--gains that would go beyond those obtainable otherwise.

8. In addition to improving the efficiency of the domestic economies, a sustainable approach would also require attraction of larger, market-based private capital flows for investment from both local and international sources. These private flows would be supported by official transfers to finance government-sponsored activities in reconstruction and economic

recovery, the development of physical and social infrastructure, environmental protection, and the setting up of social safety nets in individual countries.

9. While the main focus would thus be on fostering crucial domestic reforms, financing for regional projects and programs aimed at stimulating regional economic cooperation could play a significant role in the post-war efforts to create a lasting peace in the region. The degree of regional and non-regional donor cooperation during the Middle East crisis has been exceptional. Such cooperation could provide a catalyst for renewed efforts by the countries in the region to discuss common economic concerns and move towards region-wide economic liberalization. The past mobility of labor, and to a lesser magnitude capital, while beneficial, was not always market driven and was often associated with major distortions. There is a need for practical action towards the liberalization of economic policies in, for example, trade, foreign investment, banking and labor markets as well as in removal of administrative and regulatory barriers to factor and product mobility. While significant unimpeded mobility of capital and labor, as well as goods and services would take time to emerge, there are near-term needs for investment in infrastructure that could be pursued on a cross-border, cooperative basis. Success in limited and immediately feasible projects of common interest, supported by non-regional as well as regional donors on a multilateral basis, could prove to be a foundation for broader regional cooperation later.

10. Accordingly, future multilateral development assistance efforts should support an economic initiative that simultaneously meets the immediate needs and addresses long-term economic problems. Such an initiative would encompass the following four inter-related and complementary elements:

(i) a reconstruction program that meets the urgent needs of selected eligible countries as well as continues the ongoing economic recovery programs in other countries directed at mitigating the impact of the crisis. These programs, implemented within a comprehensive macroeconomic framework, would be supported in a manner that, at the same time, promotes the agenda for the long-term economic growth of the entire region;

(ii) country-level policy and institutional reforms that would increase the productivity and growth of the countries in the region by: reducing and eliminating chronic internal and external imbalances as reflected in large fiscal deficits, excessive domestic liquidity and payments imbalances; improving the incentive environment and eliminating distortions; promoting outward orientation; reducing regulations and controls; and, more generally, developing a business environment more conducive for private investment. Initially, this would require support for structural reforms that several countries are in the process of negotiating with the Fund and the Bank, and initiation of similar programs in the other countries wishing to participate in the initiative. Over time, these reforms should be deepened and accompanied by institutional changes as well as increased emphasis on human capital development and on efficient public administration and governance.

(iii) <u>region-wide infrastructure projects and networks</u> to exploit obvious complementarities and foster regional cooperation. Such a program might incorporate regional or sub-regional projects for: joint exploitation of riparian waters; environment protection; inter-connections of power grids; networks of gas, petroleum and/or water pipelines; highways; and research and training institutions; and

(iv) <u>region-wide policy efforts to liberalize the economic climate</u> in order to facilitate foreign investment, develop financial and labor markets, as well as facilitate increased market-induced trade--both intra-regional and global--of goods and services over the longer term.

11. An economic program based on the above outward-oriented and efficiency enhancing policies would require bold actions by the leaders in the region. It could result in the social dislocation of some segments of the population in the short term. The success of such a program and its sustainability over the longer term would also depend heavily on support from the donor community--both regional and international. The donor countries and organizations from outside the region, in addition to providing new financing and facilitating debt relief, where necessary, to supplement internal resource generation and transfers within the region, could take actions in two major areas critical to the success of the program to: (i) provide the countries in the region non-discriminatory access to markets outside the region; and (ii) facilitate transfer of technology and management skills to both the public and private sector entities.

<u>Principles for the Design of Institutional Mechanisms</u>

12. While the specific institutional arrangements would be determined in agreement among the various participating parties--donors and recipients--a number of principles can be identified for considering possible arrangements. Also, given the need to move rapidly, attention at this time should be focussed on approaches that could quickly mobilize incremental resources to meet urgent reconstruction needs as well as support crucial economic reforms and promote regional policy coordination. This would suggest building on the positive experience with the GCFCG and the use and, as necessary, strengthening of existing multilateral institutions and coordination mechanisms in the immediate future, while leaving options open for possible development of more formal mechanisms over time. In addition, the following five basic principles might be useful in considering the design of the coordination mechanisms.

13. First, renewed emphasis on domestic economic policy and institutional reforms within the recipient countries, including efforts to promote private investment in the productive sectors, is crucial for establishing the basic enabling environment and sound economic framework. There have been substantial official transfers within and to the region in the past. All too often, they have either reinforced or failed to mitigate shortcomings in domestic economic environment within the recipient countries. While some welfare-oriented transfers are needed and appropriate, the central focus of future assistance should be to support the crucial policy and institutional reforms. Efficiency and performance criteria should guide resource allocation and use decisions. To the extent feasible, official transfers should be linked to the creation of productive assets, associated institutional reforms and human resource development. The disbursement of public funds should be linked to the use of transparent and competitive procurement procedures, with suppliers from countries from within and outside the region participating.

14. Second, the official assistance, whether within the region or from the outside, would be most effective when coordinated in a multilateral context. The use of a multilateral assistance approach, as far as possible, is desirable to foster the needed domestic reforms, to stimulate regional cooperation and to visibly demonstrate the willingness of the international community to jointly tackle the fundamental problems in the region. Sustainable growth throughout the Middle East is of mutual interest to both capital-surplus and labor-surplus countries within the region as well as the rest of the world. Similarly, the integration of the region's economies internally and with the international economy is also highly desirable. Therefore, it is important that official assistance within the region, including from existing regional institutions, be complemented with significant contributions by countries outside the region. While the magnitude of the assistance still needs to be specified, these contributions are likely to involve a significant increase over the pre-crisis levels. Most of the official assistance would be on concessional (or semi-concessional) terms, and should not come at the expense of development programs in other regions.

15. Third, there is the need to retain considerable flexibility to accommodate: (a) changes over time in membership of participating countries both donors and recipients; (b) major differences in the creditworthiness and financial needs of individual recipients; and (c) individual donor preferences on the magnitude and terms of official transfers to be made available to different recipient countries. Due to the diversity of international relations, attitudes, and starting economic environment, the economic initiative might start initially with a core group of countries committed to common objectives. While the target group for assistance should clearly be broader than the three "frontline" states, there should be scope for flexibility and expansion over time in the focus of such aid coordination efforts beyond the initial core group. Countries have very different needs

and will clearly not move ahead with adjustment programs and other developmental efforts at the same pace. More importantly, it is likely to be extremely difficult, if not impossible, to rigidly define a target group of participants at the outset. While other objective criteria can help (e.g., geographic proximity, shared resources, common language and culture), the preferred criteria for participation should be mutuality of economic interests and willingness to proceed with reforms. Similarly, the resource mobilization mechanisms would need to recognize that the recipient countries have diverse financial requirements. The forms and terms on which assistance is extended to them should be based on their economic and financial needs. Finally, differences in donor country circumstances and preferences in terms of the size and conditions of official assistance to be made available to the individual recipient countries would have to be accommodated.

16. Fourth, considering the importance of the countries undertaking far reaching domestic reforms, it would be important to agree that most of the official assistance are made available within the context of policy reforms developed in cooperation with the Fund and the World Bank (in addition to meeting the criteria outlined in para. 13). The special roles of the IMF and the World Bank in guiding stabilization and structural adjustment programs and the Bank experience in coordinating multilateral development assistance could be taken into account.

17. Fifth, regional economic cooperation and policy harmonization must remain the responsibility of countries in the region. The non-regional donors and institutions could only support such efforts. Accordingly, appropriate arrangements would be needed to provide for enhanced dialogue on an ongoing basis between countries in the region and between them and the broader international community.

Possible Coordination Mechanisms

18. There are a wide variety of potential mechanisms for multilateral cooperation, some more formal (e.g., setting up new financial institutions) others less so (e.g., multilateral donor consultations). Based on the objectives of the economic program and the principles discussed above, a two-tier arrangement--at the regional and individual country levels--appears desirable. An important organizational objective would be to marshall multi-year (e.g., 3-year) pledges of financial support to countries undertaking policy reforms in the medium term context. This could be organized along the lines of the Special Program of Assistance (for Africa) as an umbrella organization. This umbrella group might also involve a policy-oriented regional group, consisting of the participating donors and recipients.

19. Within the policy framework and overall priorities agreed by such an umbrella group, the bulk of the bilateral and multilateral assistance could be channeled through individual country consortia. The individual country consortia would allow donor countries and regional and non-regional

institutions to maintain the flexibility associated with their programs to individual countries, while providing a mechanism for coordinating and facilitating cofinancing arrangements with the multilateral institutions in support for economic reform programs. The emphasis of these programs would vary reflecting the diverse country circumstances. Thus, in some cases, the emphasis would need to be on support for reconstruction and rehabilitation programs, and for most others on stabilization, structural adjustment, and longer-term development. There would also be need for a regular reporting system on aid commitments and for coordinating and monitoring program implementation by the recipient country and assuming that the agreed policies and approaches within the group of donors are followed. This could be accomplished by appointing the institution(s) providing the policy framework also as the secretariat to the program.

20. In addition, a core multilateral fund could be established to finance crucial domestic reforms and projects or programs of particular urgency and to support agreed region-wide initiatives. Such a core fund might form only a small part of the total program of financial assistance and transfers to countries in the region. Access to the core fund, as with access to the resources mobilized through the SPA-like umbrella group, could be limited to countries meeting the criteria agreed by the donors under the umbrella group. The resources would be allocated on strict criteria and guidelines consistent with the objectives of the economic program outlined above. There are alternate ways to set up such a fund--a new institution, a facility of one of the existing institutions, or a trust fund jointly governed by the donors. Some of the alternatives would require that administration be assigned to an existing competent institution. Such a fund might take some time to set up. During its organization, the economic programs in the recipient countries could be supported by associating bilateral and other multilateral financing with the ongoing Fund and Bank programs in the countries. Specific lending operations of the core fund or cofinanced through the country consortia would need to be supervised and administered according to common and generally accepted procedures. Moreover, a framework of multi-year commitments to the core fund would require ongoing administration to translate pledges into specific financing packages at the project and country level.

21. In case it was decided not to include the recipient countries in the umbrella group, consideration could be given to the formation of a regional policy group as a mechanism for policy-makers from the participating countries in the region to exchange views on regional development priorities, to draw upon the expertise of existing regional and international organizations, and to reach agreements on economic goals and policies. It could also serve as a mechanism for two-way policy level dialogue between donors and recipients. As needed, sub-groups could be organized to handle special topics of common regional interest, e.g. water management. The regional group, if found useful over time, could evolve into a more formal and lasting arrangement.

22. Other possible options that have been proposed for managing financial transfers and the policy dialogue include a Middle East Bank for Reconstruction and Development as well as a special World Bank subsidiary. Such approaches could lead to a more permanent, fully funded institution specialized in the problems of the region, and would provide a capacity to leverage official contributions with borrowings from the financial market. On the other hand, current conditions within and outside the region may not be conducive at this time to an early agreement on such necessary details as decision-making and financial structures, burden-sharing arrangements, operating procedures, etc. Moreover, given the creditworthiness problems of some potential borrowers, the portfolio of such an institution may not allow substantial financing from commercial sources. Finally, important issues related to the establishment of a World Bank subsidiary may take time to get resolved. Given these factors, it might be more practical to focus at this time on how best to structure immediately feasible coordination mechanisms so that they can be strengthened to meet the objectives noted above and evolve, as deemed necessary and desirable, over time into lasting institutional arrangements.

March 26, 1991

Confidential

Note on Arrangements for Post-War Reconstruction in the Gulf Region

The U.S. has suggested that a development bank for the Middle East be established as a means of "securing the peace" in this region following the conclusion of hostilities in the Gulf. Clearly, stepped-up economic assistance in the region will be required to deal with the dislocations and destruction of the Gulf War, and it is timely and appropriate to begin considering now how a multilateral development initiative for the Region might be structured.

There are at least two major problems, however, in trying to make a new regional development bank the cornerstone of a post-war reconstruction effort. First, it will be time-consuming and difficult to establish. Issues of eligibility, membership, capital subscriptions and voting power will be intensely difficult to resolve, given the history of past conflict and cooperation amongst countries in the region, and the additional challenge of incorporating non-regional members into such an institution. Also, the purposes of this new institution and its relationship to existing regional aid institutions -- e.g., the Islamic Development Bank, the OPEC Fund -- will need to be worked out, not to mention the form of cooperation with bilateral programs and the World Bank and IMF. And, legislative action will be required by the member countries, potentially including the U.S. It is most unlikely that such an institution could be created quickly, despite the urgency of the reconstruction task.

Second, a regional institution will not give donor countries needed flexibility in the allocation of aid. Assistance from such a multilateral agency will need to be governed by pre-defined policies, with emphasis on "objective" and "economic" criteria. Yet political issues will be crucial in the immediate aftermath of hostilities, issues that are generally very difficult to manage in a multilateral context.

For these reasons, it may be more practical in the near term to think in terms of a structured regional aid coordination initiative, along the lines of the Special Program of Assistance for Sub-saharan Africa (SPA). Such a regional initiative provides for much greater flexibility in terms of organization and eligibility for assistance but, more important, it will allow donor governments to take account of political considerations and preferences in deciding upon the scale of assistance provided to individual countries without explicitly defining such political criteria. In short, it would allow donor governments to pick and choose for the most part in making their bilateral aid contributions.

The World Bank -- which already has the major part of a regional vice-presidency working on the relevant countries -- would be prepared to take the lead in providing a framework for donor cooperation in the region as a whole and in developing country-specific assistance programs that could be selectively financed by the donors. An SPA-type framework could incorporate several dimensions of assistance -- a relatively modest multilateral "core fund", cofinancing contributions, debt relief, etc. The specific "blend" of concessional and non-concessional assistance could be tailored to country circumstances.

The Gulf Crisis Financial Coordination Group (FCG) could provide a ready-made platform for the launch of an SPA-type initiative. The immediate next step would be to sketch out the objectives, scale and country coverage of such an initiative, along with minimum eligibility criteria for assistance.

World Bank management would be prepared to send staff representatives to a meeting should Secretary Baker wish to have these suggestions discussed or developed further.

Record Removal Notice

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07 March, 1991	Board Record

Correspondents / Participants

Subject / Title
SecM91-274
EXECUTIVE DIRECTORS' MEETING - MARCH 5, 1991 Operational Response to the Gulf Crisis
Statements by Mr . Conable and Mr. Wapenhans

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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THE WORLD BANK

Office of the President

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February 13, 1991

Members, President's Council

The Post-War Gulf Region

I attach the note mentioned by Mr. Conable this morning. It was prepared by Operations and sent over to the State and Treasury Departments yesterday.

Operations is preparing a brief concept paper which will be ready next week. It will put forward a more complete proposal.

Sven Sandstrom

cc: Messrs. Alisbah & Picciotto

Confidential

Note on Arrangements for Post-War Reconstruction in the Gulf Region

The U.S. has suggested that a development bank for the Middle East be established as a means of "securing the peace" in this region following the conclusion of hostilities in the Gulf. Clearly, stepped-up economic assistance in the region will be required to deal with the dislocations and destruction of the Gulf War, and it is timely and appropriate to begin considering now how a multilateral development initiative for the Region might be structured.

There are at least two major problems, however, in trying to make a new regional development bank the cornerstone of a post-war reconstruction effort. First, it will be time-consuming and difficult to establish. Issues of eligibility, membership, capital subscriptions and voting power will be intensely difficult to resolve, given the history of past conflict and cooperation amongst countries in the region, and the additional challenge of incorporating non-regional members into such an institution. Also, the purposes of this new institution and its relationship to existing regional aid institutions -- e.g., the Islamic Development Bank, the Arab Fund -- will need to be worked out, not to mention the form of cooperation with bilateral programs and the World Bank and IMF. And, legislative action will be required by the member countries, potentially including the U.S. It is most unlikely that such an institution could be created quickly, despite the urgency of the reconstruction task.

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The World Bank -- which already has the major part of a regional vice-presidency working on the relevant countries -- would be prepared to take the lead in providing a framework for donor cooperation in the region as a whole and in developing country-specific assistance programs that could be selectively financed by the donors. An SPA-type framework could incorporate several dimensions of assistance -- a relatively modest multilateral "core fund", cofinancing contributions, debt relief, etc. The specific "blend" of concessional and non-concessional assistance could be tailored to country circumstances.

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file - Bank response to Gulf crisis

THE WORLD BANK

ROUTING SLIP	DATE 12/13/90

OFFICE OF THE
SENIOR VICE PRESIDENT, FINANCE

NAME	ROOM NO.
3) Mr. Barber B. Conable	E-1227
2) ES	
1) AK	

	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

ES.

FROM:	ROOM NO:	EXTENSION:
Ernest Stern	E-1227	82004

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CHAIRMAN'S SUMMARY

The wide-ranging discussion we have had provides us with useful guidance on how we should proceed to assist our member countries in this uncertain economic environment. There is broad support for the two specific recommendations in paragraph 45 that:

(1) we advance the drawing of $325 million due from the Bank to IDA, and;

(2) the share of IDA quick-disbursing lending be raised to a new limit of 35%, from the previously agreed 30%, for the IDA-9 period.

I note the concern several of you have expressed about this increase. The objective is not to have a higher level of adjustment lending in each of the IDA-9 years. The purpose is to avoid deciding now that increases in FY91 must be offset in FY92 and FY93 to stay within the agreed limit, regardless of circumstances. We will, therefore, keep the annual requirements carefully under review, report to you, and propose adjustment support for FY92 later. Given the time of loan preparation, we need some flexibility for FY91.

Beyond these specific recommendations, there was wide support for our general approach. Our two-phased proposal blends immediate action to support the most seriously affected countries, with careful monitoring of developments over the next few months, before committing ourselves to additional actions which might be needed to help affected members in FY92, should the situation warrant. Our approach recognizes the uncertainty we all face and also makes maximum use of existing commitment authority which I believe is appropriate in the current resource-constrained environment.

Of course, on the IDA side, in addition to the other measures taken, the proposals require an acceleration of IDA encashments. We appreciate the indications we have received from many IDA donors that they are prepared to make every effort to accommodate the accelerated encashment requirement.

While IBRD resources are adequate for the proposed lending for emergency assistance to help protect ongoing adjustment programs and to help support further structural changes, our concessional resources are severely limited. For the countries which have become eligible for IDA after the completion of the IDA-9 negotiations, we have been able to provide only notional amounts of IDA to soften the terms of their assistance. And while their IDA eligibility is important, in terms of their eligibility for ESAF and for the concessional terms which can be offered by the Paris Club, the amount of resources we have been able to reallocate is not commensurate with the concessionality of terms which would be desirable. In addition, there is a group of lower middle-income countries which are heavily indebted and for whom a softer blend of resources from the Bank group in these circumstances is justified as several of you have pointed out.

We intend to initiate discussions on mobilizing the additional concessional resources in January. Mr. Stern and his colleagues will be in touch with you shortly about how we might best proceed.

It would be my hope that we could complete the funding within a short period of time, since the amounts required for FY91 are modest. But, while the amount is not large, the funds are of great importance to the countries concerned. They also are a reflection of the ability of the international community to respond to the consequences of the Gulf crisis for countries which have limited capacity to undertake further structural change or incur additional debt. A number of Executive Directors have commented on the criteria for concessional assistance to lower middle-income countries. I think Mr. Lim put it correctly -- what we can do in this area depends on the resources available. We will, therefore, initiate our consultations and put our proposals to the Board in light of the results.

A number of you have mentioned your views on the allocation of FY90 net income. We will have a proposal to you after we complete our mid-year review of the Bank's lending program. Whatever resources can be made available to expand our commitment capacity, two things are important:

(1) these funds should be used in the most catalytic fashion possible, and;

(2) the Bank's contribution should not become a substitute for a broadly shared effort to help the most seriously affected countries.

I also want to emphasize that we may well face the need to raise additional funds for FY92. I do not think that it will be easier to raise supplemental resources then than now.

The amount of additional funding that we can generate will determine the extent of relief we can provide to the recent IDA eligible countries and to the low middle-income countries. We will want to keep the situation of this group of countries under careful review and consider what additional measures may be necessary in the future.

Gulf Crisis ~~AK~~ ~~95~~

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/18 DUE DATE : 00/00/00
LOG NUMBER : 900918012 FROM : Mr. Kashiwaya
SUBJECT : G7 Attitude towards the Gulf Crisis

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

	APPROVED
	PLEASE HANDLE
	FOR YOUR INFORMATION
	FOR YOUR REVIEW AND RECOMMENDATION
✓	FOR THE FILES
	PLEASE DISCUSS WITH BBC
	PLEASE PREPARE RESPONSE FOR ______ SIGNATURE
	AS WE DISCUSSED
	RETURN TO ______

COMMENTS :

*IMPORTANT

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WBG ARCHIVES

Office Memorandum

DATE: Tuesday, September 18, 1990

TO: Messrs. Conable, Qureshi, Wapenhans

STRICTLY CONFIDENTIAL

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: **G7 Attitude towards the Gulf Crisis**

1. At the G7 Deputies meeting in Paris on September 10, Japan and the U.S. strongly urged that the multilateral economic support for frontline countries be handled in economic terms through the Treasury or Ministry of Finance rather than by political demonstration through diplomatic channels.

2. When Mr. Utsumi proposed that emergency support group meetings should be held on a country-by-country basis instead of forming an integrated multilateral trust fund, as proposed by the U.S., the European donors agreed. Eventually the U.S. may have to come to terms with this suggestion. The U.K. and Italy urged the Bank to chair this emergency meeting because of the Bank's experience in this type of operation, although the French proposed co-chairmanship by the Bank and one host country, per one recipient. According to Mr. Utsumi the U.S. is a little apprehensive that maybe not only the Treasury/MOF but also the State Department/MOFA will become involved in the discussions under the chairmanship of the Bank because Germany and U.K. will send their development aid agencies.. In this regard one might argue that the IMF is the more appropriate organization to chair the meeting. But the current impasse between the IMF and Egypt causes uncertainty and irritates the G7. There may be the argument within the U.S. Government that the U.S., for practical reasons, should chair or lead the emergency meeting.

3. With respect to the Bank's proposal for hosting an emergency meeting for Egypt, Mr. Utsumi wishes to wait for the outcome of the G7 Deputies meeting in Washington on September 20, even though he would prefer the Bank's chairmanship of this emergency meeting. Under the current situation, I believe, we should first of all informally sound out the U.S. Treasury at the highest level and obtain its support. At this time the Bank may argue that so long as the IMF sticks to strict conditionality regarding Egypt, the Bank is the most appropriate international institution to mediate/coordinate the donors, the borrowers and the IMF . If the U.S. is determined to chair the meeting, the Bank may argue that aid coordination under the framework of IFIs would assure the viability of economic recovery from the Gulf crisis and stronger support from many donors as well as from the recipients. Otherwise, bilateral assistance with strong political motivations might jeopardize the efforts of the borrowers to pursue adjustment programs. In addition, multilateral leadership rather than bilateral is far more commendable in view of the fact that many Arab countries resist the imposition of economic policy reforms from the U.S. As the U.S. has skillfully enhanced the multilateral character of the U.N. Security Council by bringing to the fore the embargo against Iraq, the Bank should organize the emergency support group with other donors in the spirit of multilateralism.

KKashiwaya:jed

International Bank for Reconstruction and Development
International Development Association
FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on
Thursday, December 13, 1990

R90-223/2
IDA/R90-140/2

FROM: Vice President and Secretary

December 10, 1990

WORLD BANK ASSISTANCE TO COUNTRIES

AFFECTED BY THE GULF CRISIS

Attached is an addendum to the paper entitled "World Bank Assistance to Countries Affected by the Gulf Crisis", dated November 16, 1990 (R90-223 IDA/R90-140). The subject of the addendum is Lebanon; it should appear in Annex 1, Page 3 of 5 of the paper, directly after the first paragraph.

Questions on this addendum may be referred to Mr. Robless (ext. 82860, Mr. Yurukoglu (ext. 80570) or Mr. Grilli (ext. 81934)

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC and MIGA

December 4, 1990

Lebanon

1. Another difficult case is Lebanon, where the effects of the Gulf Crisis come on top of the devastation bought about by prolonged civil war. Owing to the security situation, the Bank has not had an operational relationship with the country and therefore, has not been in a position to make an independent estimate of the effects of the crisis.

2. However, during the Annual Meetings, the Minister of Finance provided the Government's estimates which indicate a total loss of around $380 million in 1990, comprising exports foregone, incremental oil costs, and the loss of remittances from Lebanese workers in Iraq and Kuwait. This amount is equivalent to one-third of what Lebanon's export earnings might have been during that year if the Gulf crisis had not occurred. On a full year basis, the Government's estimates indicate that the total loss would nearly double to about US$0.8 billion in 1991 and about $0.7 billion in 1992. These numbers do not take into account the cost to the economy of Lebanese nationals returning from Iraq and Kuwait.

3. During the recent annual meetings, the Minister of Finance informed Bank management that the government was planning to reorganize the institutional framework for implementing the reconstruction effort; most recently it has requested Bank views on a report prepared for this reorganization. The government has also indicated that it would like the Bank to take an active part in aid coordination for reconstruction assistance to Lebanon.

International Bank for Reconstruction and Development
International Development Association
FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on
Thursday, December 13, 1990

R90-223/3
IDA/R90-140/3

FROM: Vice President and Secretary

December 11, 1990

WORLD BANK ASSISTANCE TO COUNTRIES
AFFECTED BY THE GULF CRISIS

Recent Developments in the Petroleum Market

Attached is a paper entitled "Recent Developments in the Petroleum Market", which was referred to in footnote 1, page 1 of the document entitled "World Bank Assistance to Countries Affected by the Gulf Crisis" (R90-223[IDA/R90-140]).

Questions on this document may be referred to Mr. Ronald Duncan (ext. 33845).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC and MIGA

RECENT DEVELOPMENTS IN THE PETROLEUM MARKET

For the first half of 1990, the average price of OPEC crude oil exports (the Bank's indicator price) was $16.10/bbl. Since the Mid-East crisis, oil prices for the most part have been within the range of $30 to $40/bbl, with movements largely determined by perceptions of the probability of the outbreak of war. Month-by-month movements in petroleum prices since July are presented in Table 1. This paper describes developments in the petroleum market since Iraq's invasion of Kuwait and provides an analysis of the changes in prices, production, consumption, and stocks of crude oil and petroleum products since that time. The movements in market prices since September are within the range of prices set out in Scenarios 1 and 2 of IEC's earlier analysis (see Sec M90-931/1 dated September 13, 1990).

Production

At this time, taking account of increases from all sources, the shortfall in crude oil supplies as a result of the embargo has been fully offset. However, the mix of crudes (light and heavy) in the market has changed. In August, following the Iraqi invasion of Kuwait and the embargo on Iraqi and Kuwaiti oil, OPEC crude oil supplies available for export declined by about 3.9 mb/d. An estimated 0.7 mb/d production of refined petroleum products was also removed from the market due to the embargo on output from Kuwaiti refining operations. About 75% of Kuwait's refined output was light products (jet kerosene, naphtha, gasoline, etc.) and 25% residual fuel oil.

The changes in OPEC crude oil production flows between July and November are shown in Table 2. OPEC November output is estimated to be around 22.6 mb/d compared with around 23.06 mb/d output in July, with the increases to offset the loss of Iraqi/Kuwaiti oil coming mainly from Saudi Arabia (2.33 mb/d) and the UAE (0.39 mb/d). Iran's production increased to around 3.3 mb/d in September but has since fallen back to the pre-invasion level of 3.06 mb/d, due to technical problems as well as difficulty in placing its heavy crudes in the market. Heavy crudes appear to be in surplus. Iraqi and Kuwaiti crudes are mainly light crudes. The increases by other producers have been a mix of light and heavy crudes with a larger weighting on heavy crudes. Saudi Arabia is also having difficulties finding buyers for its additional supplies of Arabian heavy; its unsold supplies of heavy crude are being held in floating storage. This shortfall of lighter crudes has been one of the causes of the widening differential between light and heavy crude prices. The Brent/Dubai differential has increased from $2.40/bbl in late-July to over $4/bbl in recent weeks (see Table 3).

Since August, non-OPEC crude oil production has increased by around 0.53 mb/d (from 28.4 mb/d to 28.9 mb/d) with most of the increase (0.32 mb/d) coming from the North Sea region. The UK sector has increased by around 0.12 mb/d as a result of completed maintenance work. Norway's production has increased by 0.19 mb/d due to increases from its Gullfaks fields. In both cases, the increases were anticipated prior to the Mid-East crisis. Therefore, the short-run, oil price shock-induced increases in non-OPEC production are only about 0.2 mb/d. Mexico has accounted for almost one-half (0.1 mb/d) of this, and Malaysia (0.08 mb/d) and Oman (0.04 mb/d) have provided the remainder. Due to the recommissioning of some stripper wells, US crude oil production has also increased, albeit only marginally. USSR's production and exports have continued to decline due to technical difficulties and future prospects remain bleak. The USSR's crude oil production (primarily a heavy crude--API 33°) is estimated to have declined by around 0.6 mb/d in 1990 (to 11.53 mb/d). Substantial cuts in capital investment in the oil sector which have reduced budget allocations for exploration and development in the difficult terrains in Western Siberia, widespread corrosion of pipelines, transportation difficulties and ethnic problems have all contributed to declines in USSR production. This decline in USSR exports has led to cuts in crude oil exports to India and Pakistan (based on previously negotiated preferential contracts) and contributed to oil and

Table 1: Prices of Crude Oil, 1985 to 1990

	OPEC (average)	Brent	WTI
	$/bbl		
1985	26.68	27.59	27.98
1986	13.64	14.42	15.03
1987	17.23	18.39	19.17
1988	13.63	14.99	15.96
1989	16.42	18.22	19.59
1990			
Q1	17.89	19.77	17.63
Q2	14.40	16.41	13.83
Q3	23.70	26.37	24.08
Memo for 1990:			
July	14.72	17.53	18.64
August	25.85	26.82	27.17
September	30.80	34.75	33.69
October	32.28	36.20	35.92
November	29.70	33.20	32.30

Sources: Wall Street Journal (for Brent and West Texas Intermediate); Platt's Oil Price Report and World Bank (for OPEC average spot).

Table 2: OPEC Crude Production, July and November, 1990

Country	July	November	Difference Nov-July	Maximum (Surge) /a Capacity	Difference Surge-July
Algeria	0.75	0.80	0.05	0.80	0.05
Ecuador	0.28	0.29	0.01	0.29	0.01
Gabon	0.29	0.295	0.005	0.295	0.005
Indonesia	1.20	1.325	0.125	1.35	0.15
Iran	3.06	3.06	0.00	3.30	0.24
Libya	1.23	1.55	0.32	1.55	0.32
Neutral Zone	0.34	0.25	-0.09	0.30	-0.04
Nigeria	1.76	1.90	0.14	1.90	0.14
Qatar	0.375	0.40	0.025	0.40	0.025
Saudi Arabia	5.32	7.65	2.33	8.00	2.68
UAE	1.87	2.26	0.39	2.26	0.39
Venezuela	2.06	2.235	0.175	2.45	0.39
Iraq	2.91	0.50 /b	-2.41	0.50	-2.41
Kuwait	1.62	0.075 /b	-1.545	0.075	-1.545
Total	23.065	22.59	-0.475	23.47	0.405

Source: Petroleum Economics Ltd.; World Bank.

/a "Surge" capacity is defined as the maximum attainable capacity, recognizing that this capacity may only be maintained for a short period, say, of 30 days.

/b Estimated for domestic consumption.

Table 3: Prices of Brent and Dubai Crude, July 27 to November 30, 1990

	Pre-Invasion	Post-Invasion			
	July 27	Aug. 10	Sept. 28	Oct. 26	Nov. 30
	($/bbl)				
Brent /a	19.65	24.95	39.50	35.25	32.00
Dubai /b	17.25	21.85	35.50	31.50	27.50
Differential (Brent-Dubai)	2.40	3.10	4.00	3.75	4.50

/a API of 38°
/b API of 32°

Source: Platt's Oil Price Report; and Petroleum Economics Ltd.

product shortages in those countries. However, the most severe impact of declining USSR production is on the Eastern European countries. In an effort to increase petroleum exports to the OECD--to increase hard currency earnings--USSR exports to COMECON members had declined by about 10% by mid-1990 (from 1.99 mb/d in 1989). The prospect for additional near-term increases in non-OPEC supplies do not appear promising--all suppliers seem to be running at maximum capacity. Therefore, any additional supplies will have to come from OPEC sources.

Since the Mid-East crisis, Saudi Arabia has increased refinery runs from 1.44 mb/d to about 1.78 mb/d. Refineries in Japan, Singapore and the United States have also increased output. Thus, the shortfall in highly-refined product supplies due to the loss of Kuwait's refined products has been mostly replaced. However, refineries have also been working to increase stocks of refined products. With the emphasis on lighter products and middle distillates (heating oil products), this has also led to upward pressure on the premium for lighter crudes.

Stocks

Estimates of on-land crude oil stocks have declined from 1.52 billion barrels in July to around 1.459 billion barrels in October (see Table 4). There has also been a drawdown in floating storage of some 45 million barrels since the end of June. Most of the liquidation of inventories has been of light-sweet crudes while inventories of heavy crude have increased--reflected in the widening light/heavy price differentials. The increase in refinery demand in anticipation of higher winter demand in the northern hemisphere is the key factor in the decline in crude oil stocks.

Between July and October, petroleum product stocks have increased by about 55 million tons (from 1,393 million tons to 1,448 million tons). Stocks of gasoline, distillates, and fuel oil have increased, with the most significant stock buildup in distillates (about 80% of the total increase) in anticipation of winter demand. In contrast to earlier reports of shortages of refined products, there now appear to be ample supplies (including gas oil) in most markets, except in countries facing financial constraints. In those countries, high product prices and depleted foreign exchange reserves have impeded their ability to fund imports.

Increases in refined product stocks have offset declines in crude oil stocks for the most part and the levels of commercial stocks (crude and products) on land storage have declined only slightly from 2,914 million barrels in July to 2,907 million in October (see Table 4). Publicly-held stocks have remained unchanged at around 1,185 million barrels over this period. Including strategic petroleum reserves (SPRs) and stocks on floating storage, the estimated 5.33 billion barrels of global oil stocks were equivalent to around 99 days of global oil consumption at the end of the third quarter--about 3 days above last year's level at this time (Table 5). Third-quarter commercially-held stocks of crude oil and petroleum products of around 3 billion barrels were equivalent to about 58 days of consumption compared with 56 days at this time last year. Over the northern hemisphere winter period global stocks are expected to decline to 98 days equivalent and commercial stocks to decline to 56 days' supply. It is normal during the first and fourth quarters, the period during which oil demand is seasonally high, for stocks to be drawn down. Prior to the Mid-East crisis our expectation was for a stock drawdown of around 1.6 mb/d during the fourth quarter (see Table 7).

Consumption

Present estimates are that crude oil consumption in the fourth quarter of 1990 will be around 0.6 mb/d lower than the pre-invasion forecast of 55.4 mb/d. Still, global oil consumption is expected to be higher in the fourth quarter than in the third quarter due to the seasonal peak associated with the northern hemisphere winter. Our current estimate is that consumption will average 54.8 mb/d in the fourth quarter (see Table 6). The bulk of the price-driven reduction is expected to take place in the OECD (0.5 mb/d) (Table 7). In the developing countries, where petroleum demand increased sharply in the third quarter due to panic buying, demand now appears to have slowed down. In some countries, such as India, the Philippines and Pakistan, the slowdown in demand is a result of government policies that mandated sharp cuts in consumption--given sharply higher costs of petroleum imports.

Short-Term Prospects

Given the expected increase in world oil consumption to 54.8 mb/d in the fourth quarter (an increase that will carry over into the first quarter of

Table 4: Commercial Petroleum Stock Levels, July to October, 1990

	Total Stocks	Crude Stocks	Refined Product: Gasoline	Refined Product: Distillates	Refined Product: Fuel Oil
	(million barrels)				
July	2,914	1,520	476	588	329
August	2,898	1,481	469	613	336
September	2,913	1,467	485	625	337
October	2,907	1,459	483	633	332
Change July-October	-7	-61	7	45	3

Source: Petroleum Economics Ltd.

Table 5: Global Petroleum Stocks /a

	1990 Quarter Second	Third	Fourth
	(million barrels)		
Total stocks	5,473	5,334	5,293
-Strategic Reserves	1,180	1,185	1,180
Days supply	102	99	98
-(Last year)	(100)	(96)	(97)

Source: Petroleum Economics Ltd.

/a Stocks in on-land storage (commercial stocks and government strategic stocks) and stocks in floating storage.

Table 6: Estimates of Global Petroleum Consumption, 1989 to 1991

	OECD	Developing Countries	Total
	(mb/d)		
1989	37.8	14.7	52.5
1990	38.2	15.2	53.4
Q1	38.8	15.1	54.0
Q2	37.0	15.2	52.2
Q3	37.7	15.3	53.0
Q4	39.4	15.4	54.8
1991			
Q1	38.7	15.4	54.1

Source: World Bank and Petroleum Economics Ltd.

Table 7: Petroleum Demand-Supply Balance (Fourth Quarter, 1990)

	Pre-Invasion Estimate	Current Estimate	Difference
	(mb/d)		
Demand			
OECD	39.9	39.4	-0.5
Developing countries	15.5	15.4	-0.1
Total	55.4	54.8	-0.6
Supply			
OECD	15.6	15.6	0.0
Non-OPEC Developing	9.5	9.7	0.2
Net USSR Exports /a	1.8	1.8	0.0
Other Supplies	1.8	1.8	0.0
Sub-total	28.7	28.9	0.2
OPEC NGL	2.0	2.0	0.0
OPEC Crude	23.1	22.6	-0.5
Total	53.8	53.5	-0.3
Stock Change	-1.6	-1.3	

/a Excluding exports to COMECON members.

1991), non-OPEC supplies of 28.9 mb/d, and an increase in OPEC crude oil production to between 22.6 mb/d and 23 mb/d (from 21.9 mb/d in the third quarter), a stock drawdown of around 1.3 mb/d is expected over the northern hemisphere winter period. It is anticipated that any further OPEC increase (above 22.6 mb/d) in December and January will come from Saudi Arabia where production could reach 7.8 mb/d or even higher. Almost all of this increase in Saudi Arabian output (up from 7.6 mb/d) will be of Arabian light from its Ghawar fields. However, it is unlikely that OPEC output will reach full capacity during this time due to the technical problems facing Iran. Saudi production could go higher than 7.8 mb/d on a short-term ("surge") capacity basis, but this risks damage to the oil fields.

Since the Mid-East crisis oil prices have been extremely volatile on a day-to-day basis. Underlying the volatility has been a quick succession of conflicting signals concerning the probability of the outbreak of war. Prices have fluctuated around $30/bbl (the Bank's scenario 1) when sentiments favored a peaceful resolution of the Mid-East crisis but moved near the $40/bbl on perceptions that a shooting war was imminent. Prior to the Mid-East crisis, the market expected oil prices to be around $21 to $22/bbl in the fourth quarter of 1990, as reflected in the futures price (Table 8). At that time nearby futures contracts were being traded at a discount to those for distant months. However, since early August spot and nearby futures prices have traded at a premium over distant futures contracts (reflecting an expectation that prices will fall in the future)--although the premium has been very volatile due to changing perceptions with regard to the resolution of the crisis.

Table 8: Futures Prices for Light-Sweet Crude Oil (NYM)

	Pre-Crisis	-----Post-Crisis----	
	July 31	Oct. 4	Dec. 3
	---------------($/bbl)---------------		
September	20.21		
October	20.97		
November	21.46	37.32	
December	21.84	36.17	
January 1991	21.86	34.82	28.85
February	21.82	33.64	30.54
March	21.79	32.56	29.22
April	21.76	31.55	27.92
May	21.74	30.62	26.82
June	21.74	29.77	25.92
July	21.75	29.02	25.22
August	21.76	29.39	24.68
September	21.77	27.86	24.23
October	21.78	27.43	23.83
November	21.79	27.08	23.48
December	21.80	26.80	23.19
January 1992	21.81	26.55	22.93
February	21.82	26.32	22.75
March		26.11	22.60
April		25.92	22.45
May			22.32
June			22.21

Source: Wall Street Journal.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

URGENT

TO: Mr. Sven Sandstrom, EXC

December 9, 1990

File

FROM: Ernest Stern, FINSV

SUBJECT: Board Paper - Recent Developments in the Petroleum Market

(1) I would hope that we could continue to send materials to the PC through your office. If every Department starts sending its own material directly, we will have even less discipline on timing and quality.

(2) This paper arrived in my office on December 7 (Friday) with a request for clearance so that it could be distributed on December 10 (Monday). This is inexcusable. The date for the Gulf Crisis paper has been known for some time. If additional material cannot be made ready in time by staff, I suggest the alternative is not to ask the PC to read and consider the paper in a hurry.

(3) I do not understand why every Gulf Crisis paper needs a companion piece on oil prices from IEC. Revised estimates of the oil price are not the focus of next Thursday's discussion, and rushing a paper out two days before the meeting is only likely to confuse the discussion.

(4) Moreover, I do not find the paper particularly enlightening. Aside from the misplaced linguistic pyrotechnics (in contango and backwardation) in the last paragraph,

- There is no indication how our estimates compare to those of others.

- There is no explanation of what the projection period is---$30-40/bbl "in the short-term".

- To speculate on December 10 about the fourth quarter average and its impact on the 1990 average price does not add much knowledge.

- If "the short-term" means beyond the end of CY90, discussion of why our estimate is so much higher than the futures market would have been useful.

- The distinction between heavy and light crude is made, but nothing is said about the type of Soviet oil. Is it light crude that is declining?

- There is no discussion of whether the total price increase projected by us is due to speculation or supply/demand imbalances. It is said that to balance the market would require a draw-down of 1 mb/per day. Is this unreasonable in the fourth quarter? Is it much higher than the normal seasonal pattern? The stock section only says that there is such a pattern. If it is normal and/or doable, the market would be in balance and, since the whole discussions assumes zero price sensitivity, there would presumably be no reason to expect a price increase other than through war speculation.

- The output discussion on p.1 needs correction. Countries are given credit for output increase, but November would seem to be below July.

(5) Personally, I see no reason to issue this belated Board paper.

cc: Mr. Rao

AK
SS

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	11/20/90

SUBJECT:

Document From: Mr. Stern
To: bbc
Dated: 11/20/90 Reference No.: EXC901120012

Topic: Meeting on Impact of the Gulf Crisis -- November 17, 1990 in Paris.

ACTION INSTRUCTIONS: | DUE DATE:

_______ HANDLE
_______ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION 11/20/90
_______ DISCUSS WITH ______________
_______ AS WE DISCUSSED
_______ PREPARE RESPONSE FOR ______ SIGNATURE
_______ FOR YOUR FILES
_______ RETURN TO ______________
_______ OTHER: ______________

Remarks: ______________

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Barber B. Conable November 20, 1990

FROM: Ernest Stern, FINSV

SUBJECT: **Meeting on Impact of the Gulf Crisis**

On Saturday, November 17, I attended a meeting convened by the Secretary General of the United Nations in Paris on your behalf. The meeting had been convened to discuss the impact of the Gulf Crisis. It was one of the more extraordinary meetings I have attended. There were no preparatory papers. While the meeting had been built as an informal discussion among eminent personalities, the meeting took place in a large conference room, with extensive U.N. support staff and photo opportunities before the meeting.

The list of participants is attached. As you can see, Mr. Camdessus, Mr. Delors and the President of the African Development Bank, Mr. N Diaye attended; the IDB and ADB were also represented.

In addition, a number of individuals had been invited although the selection criteria were obscure. The Indian Ambassador to the EEC, the Mexican Ambassador to the U.K., Paul Volcker, a former Minister from Switzerland, and a Director of a Research Institute from the Soviet Union, were present. However, there were no representatives from oil exporting countries, except for Venezuela and Algeria. Countries likely to have major windfall profits, such as Saudi Arabia, were not present.

Despite the intended informal nature of the exchange, the meeting started with a presentation by the Crown Prince of Jordan on the serious implications of the embargo and Jordan's complete adherence to that embargo. He made a major point about the problems of stabilization and adjustment under the pressure of the oil crisis and referred to a report recently commissioned by the Secretary General (the Ripert Report) on the economy of Jordan. The material, which was circulated by Jordan, has been sent to the Region.

This was followed by a statement by the Bulgarian Foreign Minister which consisted of reading a letter from his Prime Minister to the Secretary General, emphasizing the serious impact of the Gulf oil crisis. This was followed by a long discourse by Mr. Craxi, Special Assistant to the Secretary General on Debt.

Most of the morning was consumed by speeches urging special actions, special appeals and special funds with the emphasis on complete compensation for the increased oil prices. The Secretary General seemed to be headed for a new U.N. appeal or new structure to provide financing to the affected countries. After lunch, there was a change in tone by Paul Volcker, who dwelt on the political aspects of fund raising and expressed great pessimism that substantial additional resources could be raised in the United States. He was followed by Michel Camdessus who gave an extensive presentation of what the Fund was trying to achieve, the increased access to the compensatory financing facility, his search for concessional funding for an interest subsidy. He placed great emphasis on the need for further adjustment by the recipient countries to help deal with the impact of the oil price increase. I took very much the same line, based on the paper which we circulated to our Board last Friday, emphasizing strongly the need to sustain adjustment efforts and the need of the affected countries to take additional steps to adjust their economies in light of changed external circumstances. I laid out briefly how we saw the financial impact and what steps the Bank was planning to take. I concluded by urging that no additional funds be established, or new institutions created. Raising additional concessional funds already was extraordinarily difficult and should be left to the existing institutions.

Mr. Delors also followed this line. He outlined what the EEC had done, cancelling 2 billion ECU of debt for Lomé countries, providing $2 billion for the front line states and, in the G-24, providing $6 billion for Poland, and $3 billion for Hungary. He indicated that the EEC would be prepared to go further but also emphasized that this would require that the rich countries put their house in order, including a coordinated approach to the reduction of deficits so that there could be equitable burden-sharing. He also linked the trade, finance, and aid in the context of comparable activities.

At the end of the meeting, Mr. Camdessus and I advised the Secretary General that it would not be useful to have this kind of meeting formalized under the guise of "Friends of the Secretary General". We were, of course, prepared to consult with him in the future as, in the past, and to keep him informed about what actions the two institutions were taking. But meetings like this, in our view, were not productive and would hamper rather than facilitate fund raising. This was accepted by the Secretary General, although I expect you will be hearing from him in due course about another meeting at the head of agency level.

Attachment

cc: Mr. Thalwitz
Mr. Shakow

MEETING OF EMINENT PERSONALITIES
CONVENED BY THE SECRETARY-GENERAL
PARIS, SATURDAY, 17 NOVEMBER 1990

LIST OF PARTICIPANTS

MR. MICHEL CAMDESSUS
CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

MR. BETTINO CRAXI
PERSONAL REPRESENTATIVE OF THE SECRETARY-GENERAL ON DEBT

MR. IN YONG CHUNG
VICE-PRESIDENT
ASIAN DEVELOPMENT BANK

MR. JACQUES DELORS
PRESIDENT
EUROPEAN COMMISSION

MR. CIRO DE FALCO
VICE-PRESIDENT
INTER-AMERICAN DEVELOPMENT BANK

MR. KJELL-OLOF FELDT
SWEDEN

MR. KURT FURGLER
SWITZERLAND

MR. SID AHMED GHOZALI
MINISTER FOR FOREIGN AFFAIRS OF ALGERIA

MR. LYUBEN GOTZEV
MINISTER FOR FOREIGN AFFAIRS OF BULGARIA

CROWN PRINCE HASSAN BIN TALAL
JORDAN

MR. FEDERICO MAYOR
DIRECTOR-GENERAL
UNESCO

MR. BABACAR N DIAYE
PRESIDENT
AFRICAN DEVELOPMENT BANK

DR. REINALDO FIGUEREDO PLANCHART
MINISTER FOR FOREIGN AFFAIRS OF VENEZUELA

MR. JEAN-FRANCOIS SCHER
SECRETARY-GENERAL
MINISTRY FOR FOREIGN AFFAIRS OF FRANCE

MR. ARJUN SENGUPTA
AMBASSADOR OF INDIA TO THE EUROPEAN COMMISSION

MR. BERNARDO SEPULVEDA
AMBASSADOR OF MEXICO
TO THE UNITED KINGDOM

MR. ERNEST STERN
SENIOR VICE-PRESIDENT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MR. PAUL VOLCKER
CHAIRMAN
FIJI WOLFENSOHN INTERNATIONAL, INC.

MR. KOJI WATANABE
DEPUTY MINISTER FOR FOREIGN AFFAIRS OF JAPAN

MR. VITALY ZHURKIN
DIRECTOR, RESEARCH INSTITUTE ON EUROPE
USSR

TO: MR. AMMERDING, UNESCO - FAX 47348557

FROM: JEAN CLAUDE AIME , HOTEL DE CRILLON

FAX 47427210

PLEASE CONFIRM RECEIPT.

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The World Bank Group Archives & Records Management

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Subject / Title
SecM90-1296
EXECUTIVE DIRECTORS' MEETING - OCTOBER 9, 1990
Operational Response to the Gulf Crisis Statement by Mr, Qureshi

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Sherrine M. Thompson	October 19, 2022

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Correspondents / Participants

Subject / Title
MR. CONABLE'S STATEMENT TO THE BOARD ON THE OUTCOME OF THE ANNUAL MEETINGS OCTOBER 9, 1990

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Sherrine M. Thompson	October 19, 2022

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

Office of the President

October 2, 1990

TO: All Bank Group Managers

Re: The Bank's Response to the Gulf Crisis

In the weeks preceding the Annual Meetings, many of you and your colleagues were involved in assessing the impact of the Gulf crisis on developing countries and in considering possible responses by the World Bank. Mr. Conable also addressed this issue during his meeting with senior managers in September.

Following discussions with the Executive Directors and the Bank's Governors during the Annual Meetings, we have reached a broad understanding on the most suitable response. This was outlined by Mr. Conable in his speeches, as well as in several press encounters last week.

Pending a more complete report on his impressions of the Annual Meetings, Mr. Conable has asked that the attached note be circulated to you immediately. It should help you and your colleagues in your discussions with our borrowing countries and with donors. Please share the contents with your staff.

Sven Sandstrom

Attachment

POS -1

Sandstrom, Sven
E 1229

WORLD BANK RESPONSE TO THE GULF CRISIS

The Gulf crisis, unless quickly resolved, will have a serious negative impact on many developing countries. As our global responsibility mandates, we stand ready to assist our borrowing countries in coping with such external shocks. To be effective, our response must naturally be tailored to the specific needs of individual countries.

For several of our borrowers, the effects have already become severe. Egypt, Jordan and Turkey are grappling with serious economic dislocation and major disruptions are also being confronted by many other countries. The repatriation and rehabilitation of thousands of migrant workers, the loss of remittances, reduced exports of goods and services, plus the rise in oil prices, have already imposed a heavy burden on these economies. A swift response is necessary from their governments, as well as from the international donor community.

Our policies and instruments provide us the with flexibility to respond quickly, and the Bank is taking action in the most seriously affected countries as follows:

- We are preparing emergency assistance operations where needed to help several countries resettle and integrate returning workers into the economy. These operations will finance expenditures for rehabilitation and other services which generate immediate employment and income while building productive assets.

- We are increasing cost-sharing limits to enable us to finance a higher proportion of costs of ongoing and new projects. This and other measures will enable us to accelerate disbursements from existing loans and credits and are particularly relevant to IBRD and blend countries.

- When feasible and appropriate, we will advance lending operations and will supplement ongoing operations.

- We are providing policy advice to countries based on a careful case-by-case review of how they can further adjust their economies to cope with the crisis and sustain their poverty reduction efforts. Forceful measures now will forestall greater problems later.

We will also use existing mechanisms, such as Consultative Groups and the Special Program of Assistance for Africa, to help mobilize and coordinate support to the affected countries as required. Support must be channeled effectively so that ongoing reform programs are not compromised.

Furthermore, we are following the efforts of the United Nations, the EEC, NGOs and affected countries in repatriating migrant workers. These efforts are, to a large extent, presently funded by bilateral and other donors. Should the need arise, we will consider proposing to our Board an emergency grant out of net income to help fund the U.N. program of repatriating migrants to their home countries.

In his Annual Meetings speech, President Bush announced the establishment of a Gulf Crisis Financial Coordination Group chaired by the United States. This Group is to coordinate short-term assistance by bilateral donors to the frontline countries. While we were invited to and attended the initial meetings last week, the Bank is not a member of this Group. However, we will assist it in a technical capacity by providing country analyses and other technical assistance.

The steps outlined above should help the affected countries in dealing with the immediate effects of the crisis. However, they will not be sufficient if the present situation is protracted. Clearly, we must prepare now for this eventuality. Should the price of oil stay up, one option would be to raise additional concessional funds to assist further adjustment efforts, which will be necessary in the affected countries. This mobilization of resources may need to be separate from IDA so as to include as beneficiaries affected lower middle-income countries which are ineligible for IDA support. We have begun to explore the feasibility of such an option and are, of course, coordinating our efforts closely with the IMF and others.

October 2, 1990

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 5, 1990

TO: Mr. Sven Sandstrom, EXC

FROM: R. Picciotto, CPBVP

EXT: 30202

SUBJECT: **Gulf Crisis: The Humanitarian Dimension**

I have received useful comments on the Q&A sheet. Accordingly, a revised version is attached.

Also attached for your consideration are suggested introductory remarks by the President on this aspect of the Bank's potential response to the Gulf crisis.

Attachments

Gulf Crisis: Emergency Assistance for Returning Migrants

Q & A Sheet

What is the situation on the ground?

- The situation in Jordan had earlier temporarily stabilized with outflows matching inflows. However, recent reports indicate a surge in new arrivals.
- With food shortages in Iraq and Kuwait looming, IOM considers that it is essential to be ready for another wave of evacuees.

Is more money needed for evacuation?

- IOM has received cash pledges of $47 million (plus $8 million in donated services), in response to its initial appeal for $60 million for moving 100,000 Asian nationals. <u>IOM considers that an urgent need for cash and in-kind resources still exists</u>.
- IOM made arrangements for the departure of 56,700 Asians from Jordan and Turkey, with an additional 25,500 booked till the end of September.

Do we know how much money is needed?

- There may be 400,000 Asians still trapped in Iraq and Kuwait— as well as over 1 million Egyptians. If the UN system is called upon to handle only <u>one quarter</u> of the displaced Asians, it will need $70-90 million for the task. IOM has almost no funds left to evacuate a second wave of migrants.
- We would, of course, find out the intentions of other donors before we decide to provide "up to $30 million".

What if other agencies and donors put in the money needed for evacuation and resettlement?

- If the need is met, then I would not recommend to the Board that the Bank make a grant.

Would this grant, for the first time, put the Bank in the relief business?

- It has long been the practice for the Bank to make modest provisions out of its income for high leverage grant allocations for high priority development purposes (CGIAR, Sub-Saharan drought, etc.). This is one such exceptional case.

- The purpose of the grant is intrinsically developmental as it would contribute to the productive reintegration in the economies of affected developing countries of large numbers of skilled and semi-skilled migrants.

- The grant would be managed by selected UN agencies according to criteria and for purposes agreed with the Bank and approved by the Bank's Board.

Why would the grant be funded out of net income?

- From an accounting standpoint, Controllers has confirmed that a grant out of net income is appropriate because it would be made to an entity with substantially the same membership as the Bank and would not be subject to stringent conditionality.

- Net income funding is also appropriate because it meets the criteria which were adopted in 1983 for the allocation of net income. The proposal would:

    - have a distinct development impact;
    - it would help generate flows from other sources;
    - it would be handled with due regard to the Bank's comparative strength;
    - it would leave unimpaired the Bank's discretion to allocate its net income in future.

- The grant would represent a modest, <u>one-time</u> draw on the unallocated portion of FY90 net income ($295 million)

October 9 Board Meeting

Suggested Remarks by Mr. Conable on the Humanitarian Aspects of the Gulf Crisis

As many of you know, I have been deeply concerned with the human dimension of the Gulf crisis. I have therefore asked the staff to keep in touch with developments with respect to the returning migrants, especially the nationals of the most seriously affected developing countries.

The situation is fraught with uncertainty and the numbers we have are, of course, only estimates but it is clear that this is still a severe humanitarian problem which needs vigilant international attention. I consider this problem to be of concern to the Bank because it is inextricably linked to the development aspect of the crisis.

The initial wave of returning migrants—numbering about 500,000 people—has been handled in two ways:

(i) some of the governments concerned (especially India and Pakistan) have undertaken their own evacuation arrangements;

(ii) the United Nations, the EEC and its member states have together channelled about $79 million to the International Organization for Migration and other agencies. This has been of considerable help in evacuating nationals from Sri Lanka, Bangladesh, and other developing countries who were not able to organize or fund the evacuation of their nationals.

Relief officials have recently noted an acceleration in human movements across Jordanian, Turkish and Iranian borders and they have made appeals for additional funding. About 1.5 million migrants are still in Iraq and Kuwait. A contribution of $30 million by the Bank would represent about a third of what the UN system has estimated they need to handle their share of a second wave of migrants of about 0.5 million people which may have begun to swell.

I am aware that some of you harbor serious reservations about the Bank getting involved in this aspect of the crisis. I believe that we should talk about these reservations openly and, together, seek a consensus as to what, if anything, the Bank can and should do.

I do not think that there is any legal obstacle to the proposal of making a grant of up to $30 million to the United Nations for evacuation and resettlement expenditures. The General Counsel can enlighten us on this. As to funding, the proposal would be in line with our current criteria for allocation of net income and it does not conflict with the framework we will be discussing on October 15. Our accountants have confirmed that use of net income proceeds for this purpose is acceptable. We can elaborate on these points.

But, before doing so, I would like to make clear that I do <u>not</u> intend to come forward to the Executive Directors with a specific request unless:

(a) the need for Bank funds is confirmed, i.e. unless there is a funding gap which cannot be met from other sources; and

(b) a sound scheme has been worked out with the UN agencies responsible and put to you for your approval.

So, we have not reached the decision stage on this issue. The three questions I wish to put on the table now are:

(a) do you believe I am right to be concerned with the problem?

(b) do you agree it is a development problem as well as a humanitarian problem?

(c) do you support further exploration of the need and justification for a Bank grant contribution of up to $30 million to selected agencies of the UN system concerned with the humanitarian aspects of the Gulf crisis?

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 05-Oct-1990 05:48pm

TO: Sven Sandstrom (SVEN SANDSTROM)
TO: Hugh Scott (HUGH SCOTT)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: Net Income Treatment of Grant

Please see attached. In the circumstances, the penultimate sentence of the sixth paragraph of the proposed introductory remarks of the President might be as follows :

"Our accountants have indicated that the use of net income for this purpose is appropriate and will seek confirmation of this treatment from the external auditors."

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 04-Oct-1990 04:29pm

TO: Wilfried Thalwitz (WILFRIED P. THALWITZ)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: Gulf Grant

I have just heard from Boehmer who spoke very strongly against the proposal and said he would rather not make his opposition public but did not think it made sense in terms of the multilateral division of labor and the Bank's articles. He said he had told this to Mr Qureshi.

CC: Sven Sandstrom (SVEN SANDSTROM)
CC: Ibrahim Shihata (IBRAHIM SHIHATA)

Gulf Crisis: Proposed Emergency Grant

A Briefing Note

Introduction

1. The purpose of this note is to provide background information with regard to the United Nations program of humanitarian assistance related to the Gulf crisis. Should the need arise, an exceptional grant, funded out of FY90 net income would be proposed to the Board to complement the measures the Bank already proposes to take to help affected developing member countries cope with the economic aftermath of the Gulf crisis (SecM90-1198).

The Need

2. The first priority of the UN humanitarian program lies with the evacuation of returning migrants back to their countries of origin. Next, is the need to assist the migrants resettle. Migrants typically originate from economically depressed or neglected areas. Therefore, resettlement of evacuees may call for a combination of targeted actions and local rehabilitation schemes.

3. Data secured from a variety of sources suggest that about 0.5 million people have been repatriated and that some 1.5 million or more developing country nationals (mostly Egyptians and Asians) remain in Iraq and Kuwait. It is difficult to project the future flow of evacuees or its geographical pattern: both will depend on such factors as the policies of the Government of Iraq regarding foreign nationals, the security prospects in the region and the arrangements made for evacuation. A notional estimate of potential needs is shown in Annex.

4. Returnee flows initially led to dangerous concentrations of people in desert areas where living amenities were few and transport facilities inadequate. The situation is now under control but returning migrants are still moving across Jordanian, Turkish and Iranian borders. Recently acceleration of human movements has been noted and its attendant risks have been highlighted by relief officials. To minimize human suffering and costs, efforts are being made to facilitate evacuation through a variety of modes and routes, including flights and overland transport directly out of Iraq and Kuwait.

The UN Response

5. The affected people are not, strictly speaking, refugees. Therefore, the UN has determined that rather than the UN High Commission for Refugees (UNHCR), it is the International Organization for Migration (IOM)—working on behalf of the UN Disaster Relief Organization (UNDRO)—which will take the lead for the UN system with respect to the evacuation of returning migrants. For the past several weeks, IOM has been active in making arrangements for overland, air and sea transport and the logistics needed for orderly evacuation of returning migrants.

6. In parallel, the International Committee of the Red Cross (ICRC) and other relief organizations (League of Red Cross and Red Crescent Societies) has been providing assistance in connection with transit camps located in neighboring States. Other UN agencies, each within the scope of its particular mandate, are currently adjusting their programs in affected countries to assist in the resettlement process.

7. The UN Secretary General announced on September 12, 1990, that Mr. Şadruddin Aga Khan (over and above his responsibilities as Coordinator of Assistance Programmes related to

Afghanistan) will act as Mr. Javier Perez de Cuellar's Personal Representative for all humanitarian assistance connected with the Gulf crisis. This will involve oversight of the operations of all UN agencies—including UNDRO, IOM, UNICEF, WHO, WFP, UNDP, etc.

8. The purpose of a proposed grant would be to assist the United Nations in the orderly evacuation and reinstallation in their home countries of persons displaced by the Gulf Crisis. In a first phase, now nearing completion, the UN secured funding for the transport and the support services needed to take care of the emergency created by the hostilities. However, prudence requires that resilient arrangements be made for a potential increase in the flow of returning migrants. IOM has made an urgent appeal for additional funding to meet the requirements of this second phase.

9. A third phase of UN action would focus on the reintegration of returning migrants into the economies of their home countries. For this phase, preparatory work has just begun and effective targeting of assistance will pose special challenges. Close Bank-UN-NGO cooperation is envisaged to ensure effective support for national rehabilitation and special social support programs related to the crisis and its aftermath.

Modalities

10. Given the scale of needs, a potential grant by the Bank would be likely to focus on unmet second phase requirements. Some funding may also be needed for preparatory and urgent actions related to the third phase. The grant would be funded out of the proceeds of FY90 net income. A grant of $30 million would cover less than a third of conservatively estimated needs for the UN humanitarian program of evacuation related to a second wave of about 0.5 million returning migrants. Financing requirements might rise higher if hostilities break out or severe food shortages materialize. On the other hand, additional funding from other sources may also materialize in response to UN appeals so that the justification for a grant by the Bank would have to rest on the existence of a funding gap.

11. Should events justify it, a report on a specific program to be partially funded out of an exceptional grant by the Bank would be presented to the Executive Directors for their consideration and approval following which a grant agreement would be entered into with the selected administrating agency (or agencies) of the UN system. The report to the Board would address the objectives, criteria, implementation details and auditing arrangements proposed for the use of grant funds. A draft report to the Governors would also be presented to the Board, including a draft resolution authorizing funding of the grant out of FY90 net income retained as surplus.

Justification

12. The United Nations system is mandated to deal with the humanitarian aspects of regional conflicts. A significant field infrastructure has been established to deal with the migration flows currently taking place in the countries affected by the Gulf crisis. Most of the displaced and stranded persons are nationals of countries, the economies of which have been exceptionally hard hit by the Gulf crisis. It is anticipated that UN repatriation assistance will be directed mainly to those countries which have the weakest capacities to handle the problem with their own resources. The orderly return and integration of the evacuees in the economies of their countries of origin would have a distinctive development impact. It would remove a substantial economic burden from affected neighboring countries. It would help minimize the budgetary and balance of payments drain suffered by countries immediately affected by the crisis. And such action—an exceptional step to meet unprecedented needs—would constitute a "front end" for the Bank's projected emergency assistance to the rehabilitation efforts of affected countries presently envisaged to be partially financed by Bank loans and IDA credits.

Annex

GULF CRISIS: EMERGENCY GRANT PRELIMINARY ESTIMATES OF RETURNEE FLOWS AND EVACUATION COSTS [1]

(This is a partial list. Nationals of other developing countries—Turkey, China, Yugoslavia, Thailand, Vietnam, etc.—with returning migrants have not been included in the list because of the smaller magnitude of the remaining evacuation costs.)

Developing Country	Estimated Number In Iraq/Kuwait Before Crisis	Estimated Number Returned As Of 9/20/90	Assumed Number Of Additional Evacuees	Estimated Transport Cost Per Returnee	Estimated Evacuation Costs ($m)
Egypt	1,500,000	300,000	200-300,000	$145	29-44
India	180,000	50,000	60-130,000	$400	24-52
Sri Lanka	100,000	20,000	80,000	$450	36
Bangladesh	85,000	30,000	30-55,000	$450	14-25
Pakistan	100,000	50,000	50,000	$375	19
Philippines	50,000	10,000	40,000	$700	28
	2,015,000	460,000	460-655,000		150-204

1/ These estimates and ranges reflect preliminary judgments applied to estimates from UNDRO, the World Bank Country Departments and other sources. They do not reflect costs of transport between the port of entry in the home country and the final destination. Nor do they include resettlement costs.

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10/9

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/10/03 DUE DATE : 00/00/00
LOG NUMBER : 901004001 FROM : B. Picciotto
SUBJECT : GULF CRISIS: Returning Migrants - Technical Note & Q&A Sheet for mtg. on Oct. 9.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

__________ APPROVED
__________ PLEASE HANDLE
__________ FOR YOUR INFORMATION
__________ FOR YOUR REVIEW AND RECOMMENDATION
__________ FOR THE FILES
__________ PLEASE DISCUSS WITH ____________________
__________ PLEASE PREPARE RESPONSE FOR _______________ SIGNATURE
__________ AS WE DISCUSSED
__________ RETURN TO ____________________

COMMENTS :NOTE: Also copied to Messrs. Sandstrom, Khanna & PC Members.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 3, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, CPBVP

EXT: 30202

SUBJECT: **Gulf Crisis: Returning Migrants**

With reference to the meeting with the Executive Directors on October 9, 1990, please find attached a technical note and a Q & A sheet on the above subject.

cc: PC Members
Mr. S. Sandstrom
Mr. A. Khanna

IB4f C:crisis 10/3/90 4:18pm

Gulf Crisis: Emergency Assistance for Returning Migrants

Q & A Sheet

Is more money needed for evacuation ?

- IOM has received cash pledges of $47 million (plus $8 million in donated services), in response to its initial appeal for $60 million for moving 100,000 Asian nationals. IOM considers that an urgent need for cash and in-kind resources still exists.

- IOM made arrangements for the departure of 56,700 Asians from Jordan and Turkey, with an additional 25,500 booked till the end of September.

What is the situation on the ground ?

- The situation in Jordan had earlier temporarily stabilized with outflows matching inflows. However, recent reports indicate a surge in new arrivals.

- With food shortages in Iraq and Kuwait looming, IOM considers that it is essential to be ready for another wave of evacuees.

How do we know how much money is needed ?

- There may be 400,000 Asians still trapped in Iraq and Kuwait -- as well as over 1 million Egyptians -- and even if IOM is called upon to handle only one quarter of the displaced Asians, it will need $50-70 million extra for the task. IOM has almost no funds left to evacuate a second wave of migrants.

- We will, of course, find out the intentions of other donors before we decide to provide "up to $30 million."

- Obviously, if we wait long enough, others will come forward to fill the gap. In the end, the developing country governments concerned will be compelled to do the job on their own -- as they did to a large extent at the outset of the crisis. But this will place severe strains on their financial and logistical capacity. Therefore, the international community has a responsibility to help them.

What if EEC and others put in the money needed by IOM ?

- The bottom line is that after a slow start, IOM is now handling a substantial share of the evacuees -- precisely those who are the poorest and most vulnerable. A grant allocation to IOM would help minimize the human costs of the Gulf crisis. And it would indirectly relieve many of the hardest hit developing countries from the organizational and financial burdens involved in repatriating their nationals.

- Whatever, out of a $30m grant, is not used for evacuation can be used effectively for resettlement under the third phase of the UN humanitarian assistance program.

Would this grant, for the first time, put the Bank in the relief business ?

- Not at all. It has long been the practice for the Bank to make modest provisions out of its income for high leverage grant allocations for high priority development purposes (CGIAR, Sub-Saharan drought, etc.) This is one such exceptional case.

- The grant would be managed by specialized UN agencies according to criteria agreed with the Bank and approved by the Bank's Board.

- The purpose of the grant is intrinsically developmental as it protects a vital developing country asset -- people -- and as it ties in with the Bank's emergency assistance program for the most immediately impacted countries.

Why would the grant be funded out of net income ?

* Net income funding would be appropriate for several reasons:

- The grant will have a wide beneficial impact, because it will assist a number of developing countries seriously burdened by the consequences of U.N. sanctions.

- It will represent the Bank's participation in international collaborative efforts for evacuation, led by the U.N.

- It will complement the adjustments being made in the Bank's regular lending programs for the affected countries.

- By obviating the need for a supplementary budget allocation, it would keep the grant distinct from the administrative budget.

- The grant represents a relatively modest, one-time draw on the unallocated portion of FY90 net income ($295 million).

10/3/90

October 3, 1990

Gulf Crisis: Emergency Assistance for Returning Migrants
Technical Note

1. Information available from a variety of sources indicates that the costs of evacuating the first wave of returning migrants, numbering approximately 500,000, have been fully met. The evacuation costs were financed by funds raised through the IOM appeal, emergency financial assistance provided by the EEC and its member states, and air/sealifts run by the affected countries themselves (principally, India and Pakistan).

2. In the event the security conditions in the region or food supply in Iraq worsen, a large number of migrants would start moving out of Iraq and Kuwait at very short notice. Indeed, recent reports indicate that such flows may have already started. IOM, other relief agencies and governments might then be faced with having to evacuate an additional 650,000 returnees. This number could swell to 1.5 million, if all Egyptian nationals remaining in Iraq and Kuwait decided to return to Egypt.

3. The cost of returning a potential 650,000 migrants to their home countries is estimated at about $200 million. This figure would increase to $330 million if all remaining Egyptians have to be evacuated.

4. Available data suggest that almost no surplus funds remain in the hands of IOM to meet the evacuation costs of a second wave of migrants. While it is likely that further cash pledges in response to U.N. appeals and aid from the EEC and its member states, would be forthcoming in the event of a resumption of substantial returnee flows, the "financing gap" would still be sizeable. This funds shortage could seriously hamper the evacuation efforts of IOM.

5. The <u>overall</u> funding situation regarding transport costs is summarized below:

	<u>$m</u>
<u>Migrants returned to date:</u>	
Estimated costs of transporting migrants from Egypt, Sri Lanka, Bangladesh and Philippines[1]	74-80
Funds raised through IOM appeal (cash pledges) and assistance from EEC and member states	79
	======
<u>Potential further migrants:</u>	
(a) Estimated costs of transporting 650,000 migrants[2]	200
(b) Estimated additional costs for remaining 900,000 Egyptians	130
	330
	======

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[1] Information received to date indicates that the Indian and Pakistani governments have evacuated most of their own nationals.

[2] If India and Pakistan continue to handle the evacuation of their own nationals, the estimated transport costs would be reduced by about $70 million.

6. IOM appears to have moved about one-half of the Asians (80,000 out of 160,000) evacuated to date. If it were to similarly move one-half of the remaining 350,000-400,000 Asians, its costs would amount to at least $105-120 million (at an average of $600 per capita, the figure used by IOM in its appeal).

7. A Bank grant of $30 million would amount to about 25% of the projected IOM costs.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: October 3, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, CPBVP

EXT: 30202

SUBJECT: **Gulf Crisis: Returning Migrants**

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cc: PC Members
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IB4f C:crisis 10/3/90 4:18pm

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- Obviously, if we wait long enough, others will come forward to fill the gap. In the end, the developing country governments concerned will be compelled to do the job on their own -- as they did to a large extent at the outset of the crisis. But this will place severe strains on their financial and logistical capacity. Therefore, the international community has a responsibility to help them.

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- Whatever, out of a $30m grant, is not used for evacuation can be used effectively for resettlement under the third phase of the UN humanitarian assistance program.

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10/3/90

October 3, 1990

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Technical Note

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The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 01-Oct-1990 04:27pm

TO: Robert Picciotto (ROBERT PICCIOTTO)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Proposed Emergency Grant

It is my understanding that we agreed last Thursday evening to include this suggestion in Mr. Conable's summary statement to the Board next Tuesday. I see no basis for proceeding with this note, which I understood, is included in the decision we reached. By now, the EDs are well aware of the background.

CC: Wilfried Thalwitz (WILFRIED P. THALWITZ)
CC: Sven Sandstrom (SVEN SANDSTROM)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 03-Oct-1990 10:36am

TO: Wilfried Thalwitz (WILFRIED P. THALWITZ)
TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: Grant

The French ED is supportive and will seek support from his authorities. He will confirm by the end of the week.

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 28-Sep-1990 02:23pm

TO: Moeen A. Qureshi (MOEEN QURESHI)
TO: Ernest Stern (ERNEST STERN)
TO: Wilfried Thalwitz (WILFRIED P. THALWITZ)
TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: Second Wave of Migrants

News reports from Geneva indicate that the flow of migrants through Jordan has increased following Iraq's announcement that foreigners' access to food will be restricted. Relief officials speculate that this may the beginning of a "second wave".

September 22, 1990

GULF CRISIS FINANCIAL COORDINATION GROUP

OBJECTIVES

- Maintain and support U.N. economic sanctions toward Iraq.

- Demonstrate international resolve in mobilizing financial assistance for front line states and other countries seriously affected by the Gulf crisis.

- Establish a loose coordinating process to secure appropriate responsibility-sharing among creditors/donors, encourage an adequate distribution of assistance to individual front line states, and -- for the medium-term -- support economic policy reform where appropriate.

- The process must ensure that decision-making remains in the hands of creditor governments. The IFIs should, however, be asked to provide analytical and technical advice.

- Provide a stream-lined, efficient coordinating process, without a new bureaucracy, by having officials of participating governments work closely in Washington.

- Actively pursue at the IMF/World Bank Annual Meetings modification in IMF policies to increase the timely availability of IMF resources for countries seriously affected by the crisis. (It is not ruled out that we may wish to consider expanding the list of countries receiving exceptional assistance; however, this remains for further consideration.)

PURPOSE OF GULF CRISIS FINANCIAL COORDINATION GROUP

- Coordinate exceptional financial resources to the front line states and other countries seriously affected by the Gulf crisis.

- Members of the Coordination Group will together apply political conditionality on both the short- and medium-term assistance.

- Assistance for disbursement by end-1990 will be provided on an unconditional economic basis. As we move into 1991, consideration could be given to associating appropriate and realistic economic reform commitments.

    - In some cases countries may have or wish to pursue regular IMF/World Bank programs. In other cases, however, such programs may be unrealistic and consideration may need to be given to shadow programs or other variations on that approach.

    - Whatever approach is adopted, it is important to avoid rigid adherence to formal, inflexible linkage to the IMF or World Bank.

- Facilitate the use of existing and possibly additional financial resources of the IMF and the World Bank as appropriate.

- Disbursement of these exceptional financial resources is intended to be in reaction to the current Gulf crisis and not designed to address individual countries' underlying balance of payments problems and financing gaps, which must be dealt with by other means and through other channels. At the same time, financial conditionality on other flows (IMF, World Bank and bilateral aid) are not to be affected by this program.

STRUCTURE AND OPERATIONS

The Coordination Group will articulate broad policy guidelines and coordinate assistance to each recipient country. The Group will be chaired by a USG Treasury Department official with a USG State Department official as deputy chair. Decisions regarding disbursement will be made by donor governments and, in some cases, may involve channeling assistance to specific countries.

The Coordination Group will consist of a Managing Committee and a Secretariat. The Managing Committee will be composed of finance ministry and foreign ministry officials from key creditors.

The Secretariat will provide technical and analytical support for the Managing Committee and will have no decision making responsibilities.

Membership in Coordination Group

- o United States
- o Saudi Arabia, Kuwait, UAE, Qatar, and the Gulf Cooperation Council (GCC).
- o Germany, United Kingdom, Italy, France, Japan, Canada, the EC, Korea and possibly other new creditors.
- o The IMF and World Bank will provide technical advice and analytical support.

Initial Meeting of Coordination Group

- o The purpose of the first meeting of the Coordination Group would include:
  - ♦ Agreement on the Managing Committee/Secretariat structure of the Coordination Group.
  - ♦ Agreement on the coordination and measurement of bilateral flows.
  - ♦ Consideration of methods to disburse funds. Among the approaches (in addition to bilateral transfers) to be evaluated would be a common account or support fund.

Managing Committee

- o The Managing Committee will consist of finance ministry and foreign ministry officials from the United States and other key creditors. A USG Treasury Department official will chair and a USG State Department official will serve as deputy chair.
- o The members of the Managing Committee will be the chief point of contact with their governments.
- o The Committee would be expected to operate with Washington-based officials.
- o The Managing Committee will take into consideration analytical and technical advice provided by the IMF and the World Bank.
- o Based on guidance provided by authorities from creditor capitals, the Managing Committee will guide disbursements and take into account political considerations which may be relevant.

- o The Managing Committee will, in consultation with their respective authorities:

  - schedule meetings of the Coordination Group;

  - analyze and evaluate incremental financial needs of the front line states and of others directly and seriously affected by the Gulf crisis; analyses of the financial needs of recipients will draw on preliminary work done by the USG.

  - coordinate bilateral and, where appropriate, collective assistance among the recipients based on guidance from the Coordination Group; and

  - consider, as appropriate, association with IMF/World Bank supported economic reform measures for disbursements in 1991, but avoid rigid adherence to formal, inflexible types of linkages.

- o Monitor utilization of assistance by recipients.

Secretariat

- o Based on input from creditor countries, the IMF and World Bank could serve as the Secretariat. Their role will be limited to technical and analytical support. ?

- o A senior official will be designated by the Coordination Group as Executive Secretary.

- o The Secretariat, in a manner which assures coordinated input from the World Bank and IMF, will develop recommendations concerning economic policy measures so that assistance be consistent with and support the recipients' stabilization and adjustment objectives.

OIC BBC

FROM: The Secretary

September 13, 1990

Briefing Note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis

Attached is a briefing note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis. This note is being provided for Directors' information in advance of the Annual Meeting. A meeting of the Committee of the Whole will be held on this subject on September 14, 1990.

Questions on this document may be addressed to Mr. Bock (x72942) or Mr. Grilli (x81935).

Distribution:

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Senior Management Council
Vice Presidents, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Briefing Note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis

I. Introduction

1. The crisis in the Gulf poses additional economic challenges for many developing countries. A number of developing countries -- mainly in the immediate area of the Gulf -- with extensive economic relationships with Iraq and Kuwait, including workers' remittances, trade, engineering and services contracts, and face particularly severe and immediate economic disruption. Moreover, for many developing countries oil imports constitute a large fraction of GDP and exports, and a continuation of the current high price of oil would create serious balance of payments problems. This is particularly the case where higher oil import bills and other negative effects might come on top of already fragile balance of payments situations, unfinished structural adjustment programs and limited recourse to external financing.

2. In short, for several neighboring countries, the Gulf crisis poses strong immediate problems. For most oil importers it poses higher risks, and their governments should be prepared to react quickly, despite the uncertainty as to the duration of the Gulf crisis and the extent of the oil-related shock. Many adjustment programs currently under way could otherwise be derailed and further deterioration of economic conditions would follow from delayed or insufficient policy responses. For the countries most immediately impacted by the events in the Gulf, offsetting action is needed in the very short run, both by the countries affected and by the donor community.

3. The Bank has more limited potential in assisting the oil-importing countries than it did in either 1974 or 1980. The scope for expanding IBRD lending is constrained by the continuing effects of the debt overhang in many middle-income borrowers and the associated creditworthiness concerns. The amount of IDA funds available to the low income countries is fixed in the short run and already less than needed to meet demand adequately. Moreover, the scope for acceleration of project disbursements and reprogramming of lending to emphasize quick-disbursing assistance is less today simply because the Bank has already pursued such options aggressively throughout the 1980s. Nonetheless, where necessary, the Bank can play an important role in assisting member countries in three areas: first, in formulating appropriate policy responses; second, in adjusting its own substantial lending programs to changed circumstances on a country by country basis; and third, in helping mobilize, coordinate, and administer emergency and other assistance from other donors, including additional debt relief.

4. As we reported earlier, the Bank's operational staff began to undertake country by country assessments soon after the onset of the

crisis. The preliminary analyses point to a limited set of borrowers -- so-called most immediately impacted countries (MIIs) -- where a Bank response is urgently required. Management plans to hold discussions with these and other member countries during the Annual Meetings in order to determine more precisely what sort of assistance from the Bank is needed and desired. At the same time, management intends to explore with donor countries the extent to which additional resources can be mobilized, particularly for the poorest countries and those most immediately impacted by the crisis. The expectation is that the Bank will be called upon to organize special aid coordination and cofinancing efforts for particular countries or country groups.

5. As background for the Directors in their own discussions, this memorandum: (a) summarizes the results of operational staff's initial assessment of the impact of the crisis; (b) discusses the nature of the policy response needed at this time; and (c) outlines what the Bank could do to help. Further background material is given in "The Developing Countries and the Short-term Outlook for the Global Economy: Addendum", dated September 12, 1990.

II. The Impact of the Gulf Crisis on Developing Member Countries

6. The gulf crisis has already had significant effects on the price of oil -- which has increased by over 50% since July; on exports to Iraq and Kuwait -- which are dwindling as a consequence of the trade embargo promulgated by the United Nations; and on labor remittances from these two countries -- which have come to an abrupt halt as a consequence of the crisis. The impact of the loss of remittances, trade and trade-related services, debt service from Iraq is serious for a number of countries, some of which have in addition been saddled with the problems of transiting refugees and of resettling large numbers of their own nationals returning from Iraq and Kuwait. The dislocation of nearly 2 million people is posing very considerable short-term as well as medium-term problems for the countries of origin, both in the neighboring area and in developing Asia, whose capacity for resettlement is small. These costs are immediate.

7. Losses of foreign exchange remittances from workers displaced by the crisis in the Gulf are likely to last for a considerable time, even under the best of circumstances. Even a relatively quick return to normalcy in the Gulf area would most likely be followed by a slow return of foreign workers. The same applies to construction and other services formerly supplied to Iraq and Kuwait, and to some extent also to trade in goods.

8. A much greater uncertainty surrounds the oil price effects of the Gulf crisis on both oil-exporting and oil-importing developing countries. These depend crucially on the trajectory of oil prices, predictions of which are particularly risky. As described in the Addendum to Short-term Outlook for the Global Economy prepared by PRE, it is possible to envisage several outcomes, ranging from a rapid return to normalcy in oil markets, with prices averaging at US$ 20.5 per barrel in

1991 (Scenario I), to a war scenario, with prices rising as high as US$ 65 per barrel in the short-term (Scenario IV).

9. Depending on the extent and duration of any increase in the oil prices, there would be both direct and indirect effects on the economies of developing member countries. In the short-term, their trade position would be affected. Eventually, higher oil prices would translate into higher world interest rates and slower economic growth in industrial countries, and thus in higher debt service payments for many indebted developing countries and lower exports to the industrial world. On the compensating side, there would be for oil-importing developing countries higher trade with the oil-exporters, whose real incomes and purchasing power have increased. The Addendum to the Short-term Outlook examines these effects for two possible oil price scenarios, Scenario I already mentioned, and Scenario II, which instead envisages a more prolonged period of uncertainty in oil markets, with prices at US$ 25 per barrel in 1990 and US$ 29 in 1991, falling to US$ 25 per barrel in 1992. The Addendum traces out the possible economic effects of these two scenarios on the main groups of developing countries. Without wishing to ascribe degrees of certainty to these projections, they have been used to assess the effects on a country-by-country basis. In our view they represent a prudently conservative perspective to attempt a first impact analysis.

10. Looking at the non-oil effects of the Gulf crisis, it can be estimated that over the 1990-92 period at least six developing countries will suffer losses in worker remittances, trade and related services equivalent on average to half a percentage point of their 1989 GDP or more. In some cases these losses are staggering in size -- 4% of GDP in the case of Egypt, and 30% for Jordan. In other cases -- Turkey, Sri Lanka, Bangladesh and Morocco -- the range is between 0.5 and 1.5% of their 1989 GDP (Table 1). In addition, Pakistan and India can also be expected to suffer significant hardship from losses related to the non-oil impact of the Gulf crisis. For these large economies, non-oil losses are small in relation to GNP, but considerably higher if related to their export base. The actual losses from worker remittances are likely to be greater than those considered here, as a significant part of these remittances presently goes unrecorded. These effects, moreover, are felt immediately and are less likely to be reversed in the short term. These losses are thus predictable with much higher certainty than those potentially resulting from future oil price developments.

11. As previously mentioned, the fiscal burden of the most immediately impacted (MII) developing countries is going to be increased substantially by resettlement expenditure, public work and other programs, consequent to the return of expatriate workers from the Gulf area. This applies in particular to Egypt, and Jordan, but it is common to most of these countries. Consequently, pressures on national budgets will increase substantially and quickly in MII countries, at a time when many, if not most of them, are implementing efforts to contain or reduce existing deficits, often in the framework of Bank-supported adjustment efforts.

TABLE 1: BANK BORROWERS MOST IMMEDIATELY IMPACTED (MII) BY THE GULF CRISIS

EFFECT / COUNTRIES	CHANGE IN EXTERNAL ACCOUNTS DUE TO NON-OIL FACTORS 1/					
	ABSOLUTE (US$ MILLIONS)			AS % OF 1989 GDP		
	1990	1991	1992	1990	1991	1992
MIDDLE EAST AND NORTH AFRICA						
Egypt	-1200	-2000	-1400	-2.9	-4.9	-3.4
Jordan	-970	-1200	-1200	-21.6	-26.8	-26.8
Morocco	-100	-100	-100	-0.5	-0.5	-0.5
Pakistan	-70	-175	-175	-0.2	-0.4	-0.4
Turkey	-1150	-2000	-1200	-1.5	-2.5	-1.5
AFRICA						
Sudan	-40	-65	-65	-0.3	-0.6	-0.6
ASIA						
Bangladesh	-50	-125	-145	-0.3	-0.6	-0.7
India	-250	-500	-500	-0.1	-0.2	-0.2
Philippines	-105	-110	-100	-0.2	-0.3	-0.2
Sri Lanka	-25	-110	-90	-0.4	-1.6	-1.3

1/ Loss of foreign revenue from worker remittances, royalties, service fees, trade with Iraq and Kuwait and tourism.

12. Estimating the full extent of possible oil-related effects of the Gulf crisis 1/ is, as already indicated, much more uncertain and dependent on the assumptions made concerning oil price developments. A rapid return to normalcy, as envisaged in oil price Scenario I of the Addendum to the Short-term Outlook would have only a limited and short-term negative impact on the aggregate balance of payments position of the oil importing countries and on the world economy. Yet, even in the absence of war and lasting damage to oil production capacity, the prolongation of uncertainty for another year to eighteen months could significantly affect oil prices and many developing oil importers.

13. For example, it can be estimated that at least 60 oil importing developing countries would be seriously affected through their balance of payments by oil price developments such as those envisaged in Scenario II. 2/ The overall external payments position of the oil importing developing countries could worsen on average by as much as 1% of their 1989 GDP over the 1990-1992 period. The most seriously affected (MSA) countries, in terms of export earnings, are shown in Table 2. 3/

14. These estimates of country effects should be taken as indicative of what might happen in a somewhat more adverse scenario. At this stage, the extent and possible duration of the oil price increase remains too uncertain to permit the choice of any specific downside outcome. The estimates, however, show that persistence of Scenario II even for 12 to 18 months could have serious effects on a number of middle income oil importing countries, such as Romania, Bulgaria, Belize, Dominican Republic, Haiti, El Salvador, Honduras, Jamaica, Nicaragua and Guyana. Many low-income countries, particularly in Sub Saharan Africa would also be seriously affected, with losses of foreign exchange equivalent to 10-20% of their 1989 exports -- Guinea Bissau, Kenya, Lesotho, Mali, Mozambique, Sierra Leone, Somalia and Uganda among them (Table 2).

III. Adjusting to the Effects of the Gulf Crisis

15. For the MII countries, coping with the effects of the Gulf crisis will require major expenditures related to the resettlement of displaced workers, which beyond the very short-term will imply new investments in housing, urban development, education, training and health. This will create additional claims on government budgets and on foreign

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1/ As the summation of losses in worker remittances and trade receipts, in addition to higher payments for net of oil imports and debt service.

2/ See Table 6 of the Addendum to the Short-term Outlook.

3/ For the criteria used to distinguish the MSA see the Addendum to the Short-term Outlook, Appendix 5 and footnote 1 to Table 1 in this note. Data for some of the smallest economies have been omitted from the Table.

TABLE 2: OIL IMPORTING BANK BORROWERS MOST SERIOUSLY AFFECTED BY A SUSTAINED INCREASE IN OIL PRICES 1/

EFFECTS 2/ / COUNTRIES	CHANGE IN EXTERNAL ACCOUNT POSITION					
	ABSOLUTE (US$ MILLIONS)			AS % OF 1989 XC & NFS 3/		
	1990	1991	1992	1990	1991	1992
A. MII Countries						
Bangladesh	-150	-280	-230	-9.6	-17.7	-14.6
Egypt 4/	-770	-1200	-790	-6.6	-10.3	-6.8
India	-1390	-2160	-430	-6.6	-10.2	-2.0
Jordan	-1170	-1520	-1380	-38.6	-50.3	-45.5
Pakistan	-480	-900	-610	-6.2	-11.6	-7.8
Philippines	-380	-1460	-830	-3.5	-13.5	-7.7
Sri Lanka	-80	-220	-160	-4.0	-11.7	-8.5
Sudan	-90	-150	-120	-12.3	-19.5	-16.5
Turkey	-2210	-4100	-2470	-10.1	-18.7	-11.3
B. Other Middle Income Countries						
Eastern Europe:						
Hungary	-90	-910	-590	-1.2	-12.2	-8.0
Poland	-460	-2190	-1600	-4.6	-22.2	-16.2
Romania	-960	-1180	-840	-16.1	-19.6	-14.0
Yugoslavia	-350	-1240	-920	-1.5	-5.4	-4.0
Middle East and North Africa:						
Morocco	-360	-640	-420	-5.6	-9.9	-6.5
Latin America and Caribbean:						
Belize	-10	-20	-10	-6.6	-9.4	-6.1
Brazil	-1660	-3470	-1990	-4.6	-9.6	-5.5
Chile	-460	-930	-540	-4.9	-9.8	-5.7
Dominica	-3	-4	-3	-4.7	-6.3	-4.7
Dom.Republic	-210	-330	-210	-9.8	-15.3	-9.7
El Salvador	-50	-70	-50	-6.0	-9.1	-5.9
Honduras	-80	-130	-80	-7.1	-11.4	-7.2
Jamaica	-140	-210	-140	-7.0	-10.8	-6.9
Nicaragua	-60	-130	-70	-17.6	-36.7	-21.1
Panama	-80	-170	-100	-4.7	-10.4	-5.9
Uruguay	-110	-220	-130	-5.6	-10.9	-6.4
Asia:						
Korea	-2900	-4600	-2900	-4.1	-6.4	-4.1
Thailand	-1390	-2440	-1860	-5.7	-10.0	-7.6
Papua New Guinea	-90	-150	-90	-5.4	-9.0	-5.5
C. Other Low Income Countries						
Africa South of Sahara:						
Burkina Faso	-30	-40	-30	-11.6	-16.9	-11.1
Chad	-20	-30	-20	-8.7	-12.6	-8.2
Equatorial Guinea	-2	-3	-2	-6.2	-10.7	-6.9
Ethiopia	-50	-80	-50	-6.6	-11.2	-6.5
Ghana	-70	-100	-70	-7.7	-11.4	-7.4
Guinea-Bissau	-4	-7	-4	-17.4	-25.7	-16.7
Kenya	-130	-190	-120	-13.6	-21.0	-13.3
Lesotho	-20	-30	-20	-20.1	-29.7	-15.1
Madagascar	-30	-50	-30	-6.2	-11.9	-6.9
Malawi	-20	-40	-20	-7.5	-11.2	-7.2
Mali	-30	-40	-30	-10.4	-15.2	-9.9
Mauritania	-20	-30	-20	-4.4	-5.7	-3.8
Mozambique	-30	-40	-20	-18.0	-23.3	-13.1
Niger	-6	-50	-50	-1.8	-15.2	-13.4
Rwanda	-10	-20	-8	-6.5	-10.7	-5.5
Sierra Leone	-10	-20	-10	-10.1	-14.7	-9.6
Somalia	-30	-40	-20	-26.2	-38.7	-25.4
Tanzania	-30	-110	-90	-5.4	-20.8	-16.8
Uganda	-60	-40	-30	-28.7	-18.4	-11.0
Latin America and Caribbean:						
Guyana	-40	-60	-40	-15.7	-25.1	-15.7
Haiti	-20	-30	-20	-8.9	-12.7	-8.5

1/ Scenario II of the Addendum to the Short-Term Outlook. Most seriously affected are those countries whose current account deterioration is at least 2% of their 1989 GDP, or 6% of their 1989 exports of goods and non-factor services, or US$1 Billion for 2 out of the 3 years covered.

2/ Includes oil price and interest rate effects and other effects (including remittances and major disruptions in specific exports).

3/ Exports of goods and non-factor services.

4/ Egypt is technically an oil exporting country, but the net effects of the Gulf crisis are too largely negative (despite the positive oil price impact) that it falls in the category of the most seriously affected.

exchange resources, at a time when macroeconomic balances are already under considerable strain (e.g. Egypt, Jordan and Turkey), and intensification of adjustment was considered necessary even before the Gulf crisis. Most of the MII, moreover, are net oil importers, and their external balance situation would worsen for any substantial and sustained increase in oil prices. The MIIs thus have no alternative but to absorb part of the short-term effects of the Gulf crisis and to undertake the necessary macroeconomic adjustment, while dealing at the same time with the sectoral consequences of the return of national workers from the Gulf.

16. The oil-importing developing countries that are not directly affected by losses of remittances and trade as a consequence of the Gulf crisis, but are still facing oil price increases, can theoretically either attempt to finance the consequent foreign exchange loss, thus treating the oil price change as temporary, or begin adjust to it immediately as it were a permanent increase. In practice, the former choice is not likely to be open to those middle income countries which would suffer severe external account consequences from a price increase of even limited duration and/or those that are most severely indebted, and thus without access to external finance at market terms. Similarly, many low-income countries would face difficulties in securing all the concessional resources necessary to finance the short-term oil price increase, despite the relatively small absolute amounts involved at the single country level. Concessional assistance is in fact relatively fixed in the short-term, and aid reallocations, even if wanted by donors, would take time and probably be insufficient to meet the needs of all the most seriously affected low-income countries.

17. Immediate macroeconomic adjustment to the external shock being faced would, therefore, be the route that most oil importing countries have to take in the present circumstances. Previous experience has clearly shown that success in adjustment is a function not only of the appropriateness of the policy response, but also of its speed and steadiness.

18. Determining the type and shape of successful policy response depends on specific country situations. Past experience has underscored the validity of a few key principles and general lessons. One is that consumers cannot and should not be shielded from market changes. They have to face higher fuel prices in order to induce energy conservation and to promote efficient substitution. Not only do markets matter, but energy market responses to price changes are faster than previously thought. Another important lesson of experience is that macroeconomic and structural policies need to be swiftly adjusted to ensure that the internal and external balances are maintained and that the needed price adjustments take place in both product and factor markets. Indeed, as a result of the last decade of experience, the broad policy requirements of successful adjustment to an oil shock are much clear today than in the 1970s.

19. For oil importing countries suffering a terms of trade and interest rate shock, the appropriate policy response is a reduction in real domestic absorption coupled with real devaluation aimed at sustaining

output and exports. This implies not only a quick passthrough to consumers of the oil price and interest rate increases, but in most cases a nominal devaluation, supported by monetary and budgetary policies that are strict enough to cause a real devaluation to take place. Such a package of policies should minimize internal and external imbalances as well as domestic inflation, while helping to compensate for the loss of real effective demand due to reduced domestic absorption. There are inevitable costs to the countries undergoing adjustment to terms of trade losses, measurable in terms of reduced output growth, employment and real household consumption: these need to be minimized by appropriate expenditure and resource switching. Obviously, the earlier action is taken and takes effect, the lesser the losses.

20. If the oil price increase were to last longer, many middle income countries, which have no access to commercial credit and limited capacity to carry even long-term new debt at market rates, would be faced, despite early adjustment, with critically difficult choices. Their ongoing reform programs may be put seriously at risk. In order to sustain such efforts and adapt them to the new situation created by a sizeable oil shock, external assistance in the form of additional debt relief might be needed. Eastern European economies, hit simultaneously by both a regional and a global shock, would be in a particularly vulnerable situation as they already face a huge terms of trade loss as a consequence of the changes of CMEA arrangements, including those affecting supplies of oil from the Soviet Union. Finally, in order to have a reasonable chance to avoid being set back to the point where continuance of recovery would be in serious jeopardy, many of the structurally weak, most seriously affected oil importing countries of Africa and Latin America would need additional concessional assistance and more generalized relief of the burdens stemming from official bilateral debt.

IV. World Bank Response

21. The Bank can play an important role both in helping borrowers to cope with the immediate effects of the crisis and in ensuring that the adjustment and development gains achieved at such a high cost during the 1980s are sustained. In the short run, such efforts should be focussed on the MIIs and on those countries for whom higher oil prices and other factors are already creating balance of payments effects that cannot be absorbed without specific additional adjustment measures. Bank assistance could encompass three areas:

- (i) assistance in designing appropriate policy responses to the shock;
- (ii) reprogrammed and/or, to the extent that creditworthiness consideration permits, expanded lending programs to deal with specific effects of the crisis; and
- (iii) aid coordination and assistance in mobilizing appropriate financing packages, including debt and debt service relief.

Program Design

22. Bank staff have undertaken initial country assessments of the effects of the crisis. We plan to discuss these with the country authorities during the Annual Meetings and followed up with further economic and sector work as warranted. The broad objective is twofold: (1) to help develop the necessary adjustment policy agenda in light of the changed situation; and (2) to provide the basis for individual country efforts to mobilize additional financial assistance. At this time, the priority is to develop appropriate responses to the special problems of the MIIs and any other borrowers where the near-term effects of the crisis would require immediate response by the governments.

Expanded Lending

23. The scope for expanded IBRD or IDA financing for countries affected by the crisis is somewhat constrained in the near term. Although there is some scope for accelerating disbursements in the context of the present portfolio and lending programs, many of these countries are approaching the Bank's IBRD creditworthiness limits. At the same time, the amount of concessional IDA assistance that the Bank can provide is fixed in the short run--although management plans to explore with donors the scope for supplementary contributions to IDA (see below).

24. One step that the Bank can take to assist the MIIs is to provide special emergency loans to help with the resettlement of displaced workers. Relief efforts to deal with refugees are an urgent concern for the governments of most of the MII countries. Beyond the immediate need for food and temporary shelter, however, the unexpected repatriation of large number of workers -- in addition to the loss of associated remittances -- is likely to require additional investment in housing and urban development, education and retraining, and health facilities. Financing of public works and credit programs for small and medium scale enterprises are also likely to form part of the response to the resettlement task. The Bank can finance such investments as well as related essential imports. Such loans could also be vehicles for cofinancing and provide a focus to financial assistance coordination efforts.

25. Owing to the time it may take to prepare entirely new operations, the near-term assistance from the Bank might consist more of supplements to existing investment loans. Given the limited scope for such assistance to be on commercial terms, the average size of IBRD loans for this purpose is likely to be small, and they thus need to be used in a highly catalytic fashion. In the case of IDA-only or blend borrowers, the Bank's capacity to assist in this way could be significantly enhanced by even a modest increase in IDA's resources.

26. In addition to such emergency assistance, the Bank can take a number of other steps to support borrowers' efforts to cope with the effects of the crisis. These steps, which in part would reactivate instruments we have deployed earlier in comparable situations, will need to

occur within an overall policy framework that encompasses adequate adjustment to the oil and other shocks related to the Gulf crisis. They include:

(a) Increasing/accelerating disbursements to affected countries under existing adjustment loans and credits. As discussed in the previous section, some borrowers will need to take special policy actions to deal with the crisis. Where such actions include pending policy measures under existing adjustment loans/credits, the Bank would be able to advance tranche release dates correspondingly. Where borrowers are prepared to strengthen their programs to adapt to the present shock, the Bank could provide supplementary tranches within the limits of creditworthiness guidelines and resource availabilities.

(b) Advancing planned adjustment loans and credits to MSA countries. Similarly, to the extent that the response by borrowers to the crisis entails deepening of adjustment programs or accelerating of needed policy reforms, the Bank could consider advancing the timing of currently planned adjustment operations --adapting them as appropriate to the new circumstances.

(c) Accelerating disbursements under existing IBRD and IDA project loans. During the early 1980s, the Bank undertook a special program to assist borrowers adversely affected by the 1979 oil price shock. Project disbursements were accelerated, mainly through increased Bank cost sharing and local cost financing. The scope for such increases is probably smaller now than in the early 1980s. There is less room for increasing cost sharing in the poorest countries, where it is already very high. And in accelerating disbursements, the Bank would need to be cautious so as not to undermine the completion of the underlying projects. There are likely to be substantial variations across countries: the precise scope for action could be determined only after a careful loan-by-loan review.

(d) Expanding IBRD adjustment and investment lending in energy- related areas. Finally, if higher oil prices in fact prove to be a protracted problem for borrowers, some activities may be made more urgent or economically attractive (e.g., petroleum development, alternative energy sources, energy conservation measures, etc.). If this were to occur, the Bank could accelerate project development or supplement existing operations for these purposes. In the particular case of the Eastern European countries affected by the changes in CMEA arrangements and by higher market prices for oil imported from outside the area, such efforts are already underway.

Aid Coordination

25. Faced with their special problems, MIIs need emergency relief assistance and balance of payments support. Such help should be carefully coordinated, to ensure that it supports ongoing reform efforts and the incremental adjustment policies that are now necessary. The Bank already chairs consultative groups or aid consortia in a number of cases (e.g., India, Pakistan) and it will continue to provide leadership in these or similar fora. The Bank is the lead lender in certain other MIIs (e.g., Turkey), or is a logical party to organize special aid coordination efforts or support groups where formal mechanisms do not already exist (e.g., Egypt and some of the Eastern European countries). Aside from donor and recipient country wishes, the specific role which the Bank can and should play will depend on the quality of the policy dialogue with the country concerned, the degree to which the Bank can endorse the country's economic program, and the catalytic function performed by Bank lending to these countries.

26. In addressing the incremental financing requirements of the MIIs, it is important to bear in mind that the Gulf crisis may seriously limit debt servicing capacity in some countries with significant commercial debt. Subject to the established guidelines, the Bank could provide support to these countries for debt and debt service reduction under the Brady Initiative, should it be required.

27. A number of the MIIs are IDA only or blend countries. As noted above, the Bank's capacity to assist with incremental lending on concessional terms is very limited. Management plans to explore with the donors during the Annual Meetings the extent to which supplemental contributions to IDA or special trust fund resources might be made available.

28. Finally, management also intends to monitor developments closely. If oil prices appear likely to remain high for some time -- as, e.g., in Scenario II -- consideration will need to be given to a broader program of assistance, particularly for the poorest countries. Higher oil prices will be especially burdensome for Sub-Saharan Africa and other IDA-only countries. Already fragile country programs may break down under the stress of the additional adjustment required, unless new sources of financing are forthcoming to moderate the decline in living standards.

Office of the Senior Vice President, Operations
September 14, 1990

Record Removal Notice

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File Title	Barcode No.
Liaison files : Gulf crisis - Correspondence 01	1104066

Document Date	Document Type
14 September, 1990	Board Record

Correspondents / Participants

Subject / Title
SecM90-1204
COMMITTEE OF THE WHOLE - SEPTEMBER 14, 1990
Briefing on "Effects of the Gulf Crisis on Developing Member Countries and Bank Response" Chairman's Summing-Up Statement

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Sherrine M. Thompson	October 19, 2022

September 27, 1990

Mr. Conable

Barber -

EMERGENCY GRANT

I am pleased that Mr. Picciotto's memo of September 26, 1990 makes the purpose of "action now" clear in para 7---an external relations pay-off and helping the UN to get its act together. I had surmised the first one; but not the second. Neither, in my view, is a basis for spending $30 million.

There are two misconceptions in the paper. First, it attributes opposition only to the British. My conversations clearly indicate that while Mr. Lankester was the only one with the guts to speak up at his Minister's meeting with you, several other major shareholders hold views similar to his at the senior official level. Second, there is a presumption that if we do not act now, we cannot get the money fast enough. This is silly. Should there be a need we feel we should help to meet, accelerated consideration at the Board is a simple matter, and Governors' approval a foregone conclusion. The PR benefits can be reaped immediately, and the UN is not in cash bind; once the Board approves, the cash is not far behind.

There are, of course, other alternatives to (a) and (b) once we have decided that we need not have a PR success in the next two weeks and that any commitment by us can be handled with adequate speed to meet cashflow problems. Specifically, I would recommend that:

- We wait until we see the result of the IOM appeal (referred to in para 10 but not annexed);
- We consider ourselves a source of funds of last resort and subordinate our urge to straighten out the UN in this area;
- We drop funding for third phase action, which is the least comprehensible;
- We, at this stage, only include in your statement to the Board your intention to recommend a grant, if this proves necessary.

The reasons for my recommendations are simple. Emergency assistance of this sort is the most easily available type of funding, which countries can make available on an additional basis. By contrast, our $30 million is not additional. If the crisis is long-term, it makes a lot of sense to maximize the flexibility we have in the use of available funds. Preempting bilateral contributions makes no sense. Second, I fail to understand how we strengthen our case for resettlement credits by leaving open the possibility that all of the $30 million would be used for this purpose.

I do not understand at all the "front-end" anchor concept advanced in para 14.

In at least a number of the countries listed, we know fully well that returning workers will return to their villages, where their families have continued to live in their houses. They will be the poorer for the loss of their earnings but will hardly constitute a resettlement problem.

Finally, the numbers do not inspire much confidence. The largest element, outside of Egypt, is for India. Yet, India prides itself in having provided transport for its citizens to date---because it is something that had to be done. There is surely no doubt that India could, and would, spend a further $50 million for this purpose. Of course, India is looking for additional assistance, but it is rightly focussing on the aggregate---its adjustment effort and supporting supplementary financing. Similarly, I would fail to understand why the new G-7 coordinating committee could not include $40 million for Egypt in the billions they are planning to raise for emergency purposes.

All of this is simply by way of saying that haste at this point may sound seductive; in the uncertain situation we are in, it is likely to result in us using a substantial amount of money which we might be able to put to better use in support of equally poor countries and peoples, later.

I was one of the first, if not the first, to suggest that we might support an emergency effort, so I am by no means opposed to the principle. I just put a much lower price on the glory of being first.

Ernest Stern

cc: Messrs. Qureshi, Thalwitz,
Shihata, Thahane,
Sandstrom

cc: SS
A/C

September 22, 1990

Mr. Conable

Barber -

Gulf Crisis: Emergency Grant

In regard to Bob's note, I would counsel a bit less hype:

(1) I do not know who said what to whom, or to how many, but I do not believe that we would suffer a severe credibility loss. Nor is it true that delay would lend to pressure to expand the proposed grant size. My conversations with principal shareholders suggest quite the opposite.

(2) I did, in fact, suggest changes to the earlier draft to Bob, and am glad to see that this version has been improved along the lines I think are useful. However, it still falls short on two points: First, the Bank should provide emergency assistance as a last resort---not to demonstrate "multilateral solidarity". The objections being raised by senior G-7 officials are precisely on the ground that bilateral efforts will be adequate. The paper makes no reference to what gap there is, if any.

The second problem area is the introduction of a resettlement component in the emergency grant. No doubt, there will be such needs, but we have said that we have tools---emergency loans/credits---to help individual countries with such problems. There is no obvious reason why we need to delegate such support to an undefined Bank-UN-NGO decision-making process.

(3) The a-b-c game is a well-established practice---(a) and (c) are horrible, ergo (b) commands itself. The flaw is, of course, that (a)-(c) may not cover the spectrum of choices. I do not think that the only choice we have is to circulate this paper or incur the approbrium of hesitancy. I believe that a decent exploration at the political level---plus some assessment of likely bilateral

support; plus a willingness not to fixate on $30 million but on a reasonable estimate of requirements after taking into account other contributions; and dropping the funding after repatriation---is a perfectly satisfactory approach.

(4) This means:

(a) do not send this paper to the EDs;

(b) do continue your consultation with the ministers;

(c) if the consultations are positive, tell the Development Committee that you will be in touch with the Secretary General, and if there is a shortfall in the funding for the evacuation, you will recommend a grant contribution to your Board.

Ernest Stern

September 26, 1990

Mr. Sandstrom

Sven:

It would be helpful if I could join the meeting with the SVPs to discuss the attached. Thanks.

Bob

PS If the President signs the attached (at the bottom of page 3) we can type in the recommendation once Legal produces the language. If he prefers not to (but agrees to the approach) Mr. Qureshi could sign it on his behalf Monday.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 26, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, CPBVP

EXT: 30202

SUBJECT: **Emergency Grant**

1. The attached (revised) draft Board paper is for an emergency grant of "up to $30 million" to support the UN program of humanitarian assistance in connection with the Gulf crisis. The Legal Department is preparing revised language for the recommendation in page 3.

2. You have two options:

(a) proceed to the Board now and get their support for Governors' approval of an allocation of up to $30 million out of net income—subject to a detailed proposal which will be put up for Board approval concerning modalities, etc.; and

(b) wait until the UN makes an appeal; await the response of donors and ascertain the financing gap before recommending any grant to the Board.

3. Option (a) has much to commend it. There is absolutely no doubt that a grant of up to $30 million (with appropriate phasing arrangements for release of the funds, in line with needs) can be used effectively by UN agencies for a combination of Phase 2 (evacuation) and Phase 3 (resettlement).

4. To move now would allow the preparation of a responsive and timely program with the full cooperation of the UN. This is, after all, an emergency. There should be broad support at the Board for this kind of action.

5. Of course, the British still oppose the proposal. But they do so on the basis of principle ("bad precedent", "not the business of the Bank", etc.) They will not be swayed by gap calculations (which are always easy to challenge).

6. Option (b) would be cumbersome. The UN is not noted for effectiveness in fund raising and will not respond positively to the highly tentative approach implicit in option (b). Without Bank prodding, they may have a hard time getting themselves organized and, in the meantime, they will be passed by. The EEC is already busy channelling its emergency funds directly to member countries.

7. So the fundamental question is whether you wish to make a gesture of multilateral solidarity vis a vis the UN. To stay on the sidelines until a financing gap can be defined could turn into a self-fulfilling prophecy with the UN adjusting its operations and its ambitions to available funds. Certainly, option (b) would not have the external relations payoff which would result from option (a) under which we would also be helping the UN get its act together and meet its responsibilities in the face of a serious human crisis.

cc: Messrs. Qureshi, Stern, Thalwitz, Shihata, Thahane, Sandstrom

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

BARBER B. CONABLE
President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Emergency Grant

Introduction

1. This memorandum proposes an exceptional grant contribution to the United Nations program of humanitarian assistance related to the Gulf crisis, in the equivalent of up to $30 million, to be funded out of FY90 net income.

2. The proposed grant would complement the measures the Bank proposes to take to help affected developing member countries cope with the economic aftermath of the Gulf crisis (SecM90-1198).

Background

3. For the past few weeks, turmoil in the region has left thousands of persons displaced by the crisis in dire need of emergency support to subsist from day to day, make the journey back home, get resettled and secure a livelihood for themselves and their dependents.

4. The first and most urgent priority lies with the evacuation of returning migrants back to their countries of origin. Migrants typically originate from economically depressed or neglected areas. Therefore, resettlement of evacuees will call for a combination of targeted actions and local rehabilitation schemes. These measures would have to be tailor made to fit a wide variety of circumstances and take due account of existing programs and competing priorities.

5. Data secured from a variety of sources suggest that about 0.5 million people have already been repatriated and that some 1.5 million or more developing country nationals (mostly Egyptians and Asians) remain in Iraq and Kuwait. It is difficult to project the future flow of evacuees or its geographical pattern: both will depend on such factors as the policies of the Government of Iraq regarding foreign nationals, the security prospects in the region and the arrangements made for evacuation.

6. Returnee flows initially led to dangerous concentrations of people in desert areas where living amenities were few and transport facilities inadequate. The situation is now under orderly control but returning migrants are still moving across borders and potential accelerations of human movements and attendant risks need to be taken into account. To minimize human suffering and costs, efforts are being made to facilitate evacuation through a variety of modes and routes, including flights and overland transport directly out of Iraq and Kuwait.

The UN Response

7. The affected people are not, strictly speaking, refugees. Therefore, the UN has determined that rather than the UN High Commission for Refugees (UNHCR), it is the International Organization for Migration (IOM)--working on behalf of the UN Disaster Relief Organization (UNDRO)--which will take the lead for the UN system with respect to the evacuation of returning migrants. For the past several weeks, IOM has been active in making arrangements for overland, air and sea transport and the logistics needed for orderly evacuation of returning migrants.

8. In parallel, the International Committee of the Red Cross (ICRC) and other relief organizations (League of Red Cross and Red Crescent Societies) has been providing assistance in connection with transit camps located in neighboring States. Other UN agencies, each within the scope of its particular mandate, are currently adjusting their programs in affected countries to assist in the resettlement process.

9. The UN Secretary General announced on September 12, 1990, that Mr. Sadruddin Aga Khan (over and above his responsibilities as Coordinator of Assistance Programmes related to Afghanistan) will act as Mr. Javier Perez de Cuellar's Personal Representative for all humanitarian assistance connected with the Gulf crisis. This will involve oversight of the operations of all UN agencies--including UNDRO, IOM, UNICEF, WHO, WFP, UNDP, etc. Following consultations with Mr. Sadruddin Aga Khan, joint UN/Bank identification of a program suitable for grant support by the Bank--within the overall humanitarian assistance effort coordinated by the United Nations--would be initiated upon approval of the proposed course of action.

The Proposed Grant

10. The purpose of the proposed grant is to facilitate the orderly evacuation and reinstallation in their home countries of persons displaced by the Gulf Crisis. In a first phase, now nearing completion, the UN secured funding for the transport and the support services needed to take care of the emergency created by the hostilities. However, people are still seeking repatriation in large numbers and prudence requires that resilient arrangements be made for a potential acceleration in the flow of returning migrants. IOM has made an urgent appeal for additional funding to meet the requirements of this second phase (see Annex).

11. The third phase of UN action will focus on the reintegration of returning migrants into the economies of their home countries. For this phase, preparatory work has just begun and effective targeting of assistance will pose special challenges. Close Bank-UN-NGO cooperation is envisaged to ensure effective support for national rehabilitation and special social support programs related to the crisis and its aftermath.

12. A grant of up to $30 million--depending on the availability of funding from other sources--is proposed to support the United Nations humanitarian assistance program related to the Gulf crisis. Given the scale of needs, the proposed grant would focus on unmet second phase requirements and on preparatory and urgent actions related to the third phase. The grant would be funded out of the proceeds of FY90 net income. Preliminary contacts with the UN agencies concerned have been established. A report on a specific program to be partially funded out of the grant would be presented to the Executive Directors for their approval by the end of October, following which a grant agreement would be entered into with the selected administrating agency (or agencies) of the UN system. The report would address the objectives, criteria, implementation details and auditing arrangements proposed for the use of grant funds.

Justification

13. The United Nations system is well suited to deal with the humanitarian aspects of regional conflicts. A significant field infrastructure has been established to deal with the migration flows currently taking place in the countries affected by the Gulf crisis. The Bank is not equipped to oversee or administer evacuation assistance of the kind required.

14. The proposed grant would help fill a gap in the UN program of humanitarian assistance to countries affected by the Gulf crisis. It would also be a "front end" anchor for the emergency and rehabilitation programs which the Bank itself is expected to help fund and coordinate. The proposed grant would represent about a third of the requirements which the UN agencies directly concerned have tentatively estimated for the second phase of the program. And it would, of course, be a very small fraction of the estimated total costs which remain to be incurred by all sources for repatriation and rehabilitation.

15. Most of the displaced and stranded persons are nationals of countries, the economies of which have been exceptionally hard hit by the Gulf crisis. It is anticipated that UN repatriation assistance will be directed mainly to those countries which have the weakest capacities to handle the problem with their own resources. Equally, channeling of resources to support resettlement programs within the home countries of returning migrants will take account of relative capacities and needs and of the availability of sound rehabilitation programs.

16. The orderly return and integration of the evacuees in the economies of their countries of origin would have a distinctive development impact. It would remove a substantial economic burden from affected neighboring countries. It would help minimize the budgetary and balance of payments drain suffered by countries immediately affected by the crisis. And such action—an exceptional step to meet unprecedented needs—would also be a logical first step in the Bank's projected assistance to the rehabilitation efforts presently envisaged to be partially financed by Bank loans and IDA credits to affected countries.

Recommendation

GULF CRISIS: EMERGENCY GRANT PRELIMINARY ESTIMATES OF RETURNEE FLOWS AND EVACUATION COSTS [1]

(This is a partial list. Nationals of other developing countries—Turkey, China, Yugoslavia, Thailand, etc.—with returning migrants have not been included in the list because of the relatively small magnitude of the remaining evacuation costs.)

Developing Country	Estimated Number In Iraq/Kuwait Before Crisis	Estimated Number Returned As Of 9/20/90	Assumed Number Of Additional Evacuees	Estimated Transport Cost Per Returnee	Estimated Evacuation Costs ($m)
Egypt	1,500,000	300,000	200-300,000	$145	29-44
India	180,000	50,000	60-130,000	$400	24-52
Sri Lanka	100,000	20,000	80,000	$450	36
Bangladesh	85,000	30,000	30-55,000	$450	14-25
Pakistan	100,000	50,000	50,000	$375	19
Philippines	50,000	10,000	40,000	$700	28
	2,015,000	460,000	460-655,000		150-204

1/ These estimates and ranges reflect preliminary judgments applied to estimates from UNDRO, the World Bank Country Departments and other sources. They do not reflect costs of transport between the port of entry in the home country and the final destination. Nor do they include resettlement costs.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 22, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, VPCPB

EXT: 30202

SUBJECT: **Gulf Crisis: Emergency Grant**

1. Attached is the draft Board paper which reflects comments received from Messrs. Qureshi, Thalwitz, Shihata and Thahane.

2. Mr. Stern did not comment on the draft as he judged processing of this document to be premature. I understand that processing of this proposal during the annual meetings is no longer considered viable. Looking ahead, we have three options:

(a) drop the proposal altogether;

(b) circulate the attached proposal for a review by the Executive Directors at the first opportunity available following the Annual Meetings;

(c) carry out additional preparatory work, i.e. design a specific program, prior to consideration of any proposal by the Board.

3. Option (a) would carry severe credibility costs for the institution. Option (c) is not attractive since it would create pressures for further expansion of the proposed grant size and concept as well as possible criticisms of the Bank's cumbersome and hesitant approach to crisis situations.

4. This leaves option (b) which I would favor. It would allow a transparent discussion with the Board of the issues involved and it would help provide a clear mandate to the staff involved in the preparation of a suitable program to be funded by the proposed grant. Hence, I would recommend your signature of the attached document on the assumption that you still wish to proceed with this gesture of multilateral solidarity.

Attachment

cc: Messrs. Qureshi
Stern
Thalwitz
Shihata
Thahane
Sandstrom
Khanna

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Emergency Grant

Introduction

1. This memorandum proposes an exceptional grant contribution to the United Nations program of humanitarian assistance related to the Gulf crisis, in the equivalent of up to $30 million, to be funded out of FY90 net income.

2. The proposed grant would complement the measures the Bank proposes to take to help affected developing member countries cope with the economic aftermath of the Gulf crisis (SecM90-1198).

Background

3. For the past few weeks, turmoil in the region has left thousands of persons displaced by the crisis in dire need of emergency support to subsist from day to day, make the journey back home, get resettled and secure a livelihood for themselves and their dependents.

4. Resettlement of evacuees will call for substantial outlays, especially since migrants typically originate from economically depressed or neglected areas. The remedial measures to help returnees become integrated in the local economies of their home countries will be demanding. However, the first and most urgent priority lies with the evacuation of returning migrants back to their countries of origin.

5. Data secured from a variety of sources suggest that about 0.5 million people have already been repatriated and that some 1.5 million or more developing country nationals (mostly Egyptians and Asians) remain in Iraq and Kuwait. It is difficult to project the future flow of evacuees or its geographical pattern: both will depend on such factors as the policies of the Government of Iraq regarding foreign nationals, the security prospects in the region and the arrangements made for evacuation.

6. Returnee flows initially led to a dangerous concentration of people in desert areas where living amenities were few and transport facilities inadequate. The situation is now under orderly control but returning migrants are still moving across borders and potential accelerations of human movements and attendant risks need to be taken into account. To minimize human suffering and costs, efforts are being made to facilitate evacuation through a variety of modes and routes, including flights and overland transport directly out of Iraq and Kuwait.

The UN Response

7. The affected people are not, strictly speaking, refugees. Therefore, the UN has determined that rather than the UN High Commission for Refugees (UNHCR), it is the International Organization for Migration (IOM)—working on behalf of the UN Disaster Relief Organization (UNDRO)—which will take the lead for the UN system with respect to the evacuation of returning migrants. For the past several weeks, IOM has been active in making arrangements for overland, air and sea transport and the logistics needed for orderly evacuation of returning migrants.

8. In parallel, the International Committee of the Red Cross (ICRC) and other relief organizations (League of Red Cross and Red Crescent Societies) has been providing assistance in connection with transit camps located in neighboring States. Other UN agencies, each within the scope of its particular mandate, are currently adjusting their programs in affected countries to assist in the resettlement process.

9. The UN Secretary General announced on September 12, 1990, that His Highness Sadruddin Aga Khan (over and above his responsibilities as Coordinator of Assistance Programmes related to Afghanistan) will act as Mr. Javier Perez de Cuellar's Personal Representative for all humanitarian assistance connected with the Gulf crisis. This will involve oversight of the operations of all UN agencies—including UNDRO, IOM, UNICEF, WHO, WFP, UNDP, etc. Following consultations with His Highness Sadruddin Aga Khan, joint UN/Bank identification of a program suitable for grant support by the Bank—within the overall humanitarian assistance effort coordinated by the United Nations—would be initiated upon approval of the proposed course of action.

The Proposed Grant

10. The purpose of the proposed grant is to facilitate the orderly evacuation and reinstallation in their home countries of persons displaced by the Gulf Crisis. In a first phase, now nearing completion, the UN secured funding for the transport and the support services needed to take care of the emergency created by the hostilities. However, people are still seeking repatriation in large numbers and prudence requires that resilient arrangements be made for a potential increase in the flow of returning migrants. It is for this second phase that Bank emergency grant assistance is especially needed.

11. The third phase of UN action will focus on the reintegration of returning migrants into the economies of their home countries. For this phase, preparatory work has just begun and effective targeting of assistance will pose special challenges. Close Bank-UN-NGO cooperation is envisaged to ensure effective support for national rehabilitation and special social support programs related to the crisis and its aftermath. Some allocations out of the proposed grant may be made for preparatory or initial and urgent actions related to this third phase.

12. An emergency grant of up to $30 million is proposed to support the United Nations humanitarian assistance program related to the Gulf crisis. The grant would be funded out of the proceeds of FY90 net income. Preliminary contacts with the UN agencies concerned have been established. Proposals for a specific program to be partially funded out of the grant would be presented to the Executive Directors for their approval by the end of October, following which a grant agreement would be entered into with the selected administrating agency (or agencies) of the UN system.

Justification

13. The United Nations system is well suited to deal with the humanitarian aspects of regional conflicts. A significant field infrastructure has been established to deal with the migration flows currently taking place in the countries affected by the Gulf crisis. The Bank is not equipped to oversee or administer evacuation assistance of the kind required.

14. The proposed grant represents about a third of the requirements which the UN agencies directly concerned have tentatively estimated for the second phase of the program. It is a very small fraction of the estimated total costs which remain to be incurred by all sources for repatriation and rehabilitation.

15. The orderly return and integration of the evacuees in the economies of their countries of origin would have a distinctive development impact. It would remove a substantial economic burden from affected neighboring countries. It would help minimize the budgetary and balance of payments drain suffered by countries immediately affected by the crisis. And such action would also be a logical first step in the Bank's projected assistance to the rehabilitation efforts presently envisaged to be partially financed by Bank loans and IDA credits to affected countries.

Recommendation

16. The Executive Directors' report dated June 5, 1990 on the Allocation of FY90 Net Income has already been forwarded to the Board of Governors for consideration at the 1990 Annual Meetings. The Report recommends that the Board of Governors adopt a resolution noting with approval the addition of $750 million to the General Reserve and the retention of any excess of net income over $750 million as surplus pending a decision on its further disposition prior to March 31, 1991.

17. I recommend that the Executive Directors approve the attached Supplemental Report on the Allocation of FY90 Net Income, which recommends that the Board of Governors approve an amended resolution (attached to the Supplemental Report) by which the Bank would be authorized to make the grant described on this report out of the excess of net income over the $750 million which have been added to the General Reserve.

GULF CRISIS: EMERGENCY GRANT
PRELIMINARY ESTIMATES OF RETURNEE FLOWS
AND EVACUATION COSTS [1]

(This is a partial list. Nationals of other developing countries (Turkey, China, Yugoslavia, Thailand, etc.) with returning migrants have not been included in the list because of the relatively small magnitude of the remaining evacuation costs.)

Developing Country	Estimated Number In Iraq/Kuwait Before Crisis	Estimated Number Returned As Of 9/20/90	Assumed Number Of Additional Evacuees	Estimated Transport Cost Per Returnee	Estimated Evacuation Costs ($m)
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Philippines	50,000	10,000	40,000	$700	28
	2,015,000	460,000	460-655,000		150-204

1/ These estimates and ranges reflect preliminary judgments applied to estimates from UNDRO, the World Bank Country Departments and other sources. They do not reflect costs of transport between the port of entry in the home country and the final destination. Nor do they include resettlement costs.

REPORT OF THE EXECUTIVE DIRECTORS

(DRAFT)

Allocation of Net Income

Supplemental Report

1. On June 5, 1990, the Executive Directors of the Bank approved a report to the Board of Governors on the Allocation of FY90 Net Income, for consideration by the Board of Governors during its 1990 Annual Meeting. The Executive Directors concluded that the interests of the Bank and its members would be best served by:

(a) the addition of $750 million of the net income of the Bank to the General Reserve; and

(b) the retention of any excess of net income over $750 million as surplus pending a decision on its further disposition prior to March 31, 1991.

The report recommends that the Board of Governors adopt a resolution noting with approval the said addition to the General Reserve and retaining any excess of net income over $750 million as surplus as stated in the report (Bank Document No. 2).

2. On September 24, 1990 the Executive Directors discussed a recommendation of the President of the Bank that the Bank be authorized to make a grant of up to the equivalent of $30 million to an appropriate agency (or agencies) of the United Nations for the purpose of assisting in the international efforts to help the people displaced as a result of recent events in the Gulf Area.

3. The Executive Directors have concluded that it would be in the interests of the Bank and its members to make the grant of up to $30 million described in the preceding paragraph out of the Bank's net income for the fiscal year ended June 30, 1990 and to retain any excess of net income over $780 million as surplus pending a decision on its further disposition prior to March 31, 1991.

4. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the report of the Executive Directors dated June 5, 1990 as modified by this supplemental report and adopt the draft Resolution attached as Attachment A hereto, which supersedes the draft Resolution attached to the earlier report.

September 24, 1990

ATTACHMENT A

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(DRAFT)

RESOLUTION NO

RESOLVED:

1. THAT the Report of the Executive Directors dated June 5, 1990 and the Supplemental Report of the Executive Directors dated September 24, 1990 on "Allocation of FY90 Net Income" are hereby noted with approval;

2. THAT the addition to the General Reserve of the Bank for the fiscal year ended June 30, 1990 of $750 million of net income is hereby noted with approval;

3. THAT the Bank is authorized to make a grant in an amount equivalent to up to $30 million to an appropriate agency (or agencies) of the United Nations, to be used for assisting in the resettlement of people displaced by recent events in the Gulf Area, out of the net income of the Bank for the fiscal year ended June 30, 1990, such transfer to be made at a time and in a manner decided by the Executive Directors.

4. THAT any excess of net income over $780 million shall be retained as surplus pending a decision on its further disposition prior to March 31, 1991.

International Bank for Reconstruction and Development

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SecM90-1198

FROM: Vice President and Secretary

September 13, 1990

Briefing Note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis

Attached is a briefing note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis. This note is being provided for Directors' information in advance of the Annual Meeting. A meeting of the Committee of the Whole will be held on this subject on September 14, 1990.

Questions on this document may be addressed to Mr. Bock (x72942) or Mr. Grilli (x81935).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council

Briefing Note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis

I. Introduction

1. The crisis in the Gulf poses additional economic challenges for many developing countries. A number of developing countries -- mainly in the immediate area of the Gulf -- with extensive economic relationships with Iraq and Kuwait, including workers' remittances, trade, engineering and services contracts, and face particularly severe and immediate economic disruption. Moreover, for many developing countries oil imports constitute a large fraction of GDP and exports, and a continuation of the current high price of oil would create serious balance of payments problems. This is particularly the case where higher oil import bills and other negative effects might come on top of already fragile balance of payments situations, unfinished structural adjustment programs and limited recourse to external financing.

2. In short, for several neighboring countries, the Gulf crisis poses strong immediate problems. For most oil importers it poses higher risks, and their governments should be prepared to react quickly, despite the uncertainty as to the duration of the Gulf crisis and the extent of the oil-related shock. Many adjustment programs currently under way could otherwise be derailed and further deterioration of economic conditions would follow from delayed or insufficient policy responses. For the countries most immediately impacted by the events in the Gulf, offsetting action is needed in the very short run, both by the countries affected and by the donor community.

3. The Bank has more limited potential in assisting the oil-importing countries than it did in either 1974 or 1980. The scope for expanding IBRD lending is constrained by the continuing effects of the debt overhang in many middle-income borrowers and the associated creditworthiness concerns. The amount of IDA funds available to the low income countries is fixed in the short run and already less than needed to meet demand adequately. Moreover, the scope for acceleration of project disbursements and reprogramming of lending to emphasize quick-disbursing assistance is less today simply because the Bank has already pursued such options aggressively throughout the 1980s. Nonetheless, where necessary, the Bank can play an important role in assisting member countries in three areas: first, in formulating appropriate policy responses; second, in adjusting its own substantial lending programs to changed circumstances on a country by country basis; and third, in helping mobilize, coordinate, and administer emergency and other assistance from other donors, including additional debt relief.

4. As we reported earlier, the Bank's operational staff began to undertake country by country assessments soon after the onset of the

crisis. The preliminary analyses point to a limited set of borrowers -- so-called most immediately impacted countries (MIIs) -- where a Bank response is urgently required. Management plans to hold discussions with these and other member countries during the Annual Meetings in order to determine more precisely what sort of assistance from the Bank is needed and desired. At the same time, management intends to explore with donor countries the extent to which additional resources can be mobilized, particularly for the poorest countries and those most immediately impacted by the crisis. The expectation is that the Bank will be called upon to organize special aid coordination and cofinancing efforts for particular countries or country groups.

5. As background for the Directors in their own discussions, this memorandum: (a) summarizes the results of operational staff's initial assessment of the impact of the crisis; (b) discusses the nature of the policy response needed at this time; and (c) outlines what the Bank could do to help. Further background material is given in "The Developing Countries and the Short-term Outlook for the Global Economy: Addendum", dated September 12, 1990.

II. The Impact of the Gulf Crisis on Developing Member Countries

6. The gulf crisis has already had significant effects on the price of oil -- which has increased by over 50% since July; on exports to Iraq and Kuwait -- which are dwindling as a consequence of the trade embargo promulgated by the United Nations; and on labor remittances from these two countries -- which have come to an abrupt halt as a consequence of the crisis. The impact of the loss of remittances, trade and trade-related services, debt service from Iraq is serious for a number of countries, some of which have in addition been saddled with the problems of transiting refugees and of resettling large numbers of their own nationals returning from Iraq and Kuwait. The dislocation of nearly 2 million people is posing very considerable short-term as well as medium-term problems for the countries of origin, both in the neighboring area and in developing Asia, whose capacity for resettlement is small. These costs are immediate.

7. Losses of foreign exchange remittances from workers displaced by the crisis in the Gulf are likely to last for a considerable time, even under the best of circumstances. Even a relatively quick return to normalcy in the Gulf area would most likely be followed by a slow return of foreign workers. The same applies to construction and other services formerly supplied to Iraq and Kuwait, and to some extent also to trade in goods.

8. A much greater uncertainty surrounds the oil price effects of the Gulf crisis on both oil-exporting and oil-importing developing countries. These depend crucially on the trajectory of oil prices, predictions of which are particularly risky. As described in the Addendum to Short-term Outlook for the Global Economy prepared by PRE, it is possible to envisage several outcomes, ranging from a rapid return to normalcy in oil markets, with prices averaging at US$ 20.5 per barrel in

1991 (Scenario I), to a war scenario, with prices rising as high as US$ 65 per barrel in the short-term (Scenario IV).

9. Depending on the extent and duration of any increase in the oil prices, there would be both direct and indirect effects on the economies of developing member countries. In the short-term, their trade position would be affected. Eventually, higher oil prices would translate into higher world interest rates and slower economic growth in industrial countries, and thus in higher debt service payments for many indebted developing countries and lower exports to the industrial world. On the compensating side, there would be for oil-importing developing countries higher trade with the oil-exporters, whose real incomes and purchasing power have increased. The Addendum to the Short-term Outlook examines these effects for two possible oil price scenarios, Scenario I already mentioned, and Scenario II, which instead envisages a more prolonged period of uncertainty in oil markets, with prices at US$ 25 per barrel in 1990 and US$ 29 in 1991, falling to US$ 25 per barrel in 1992. The Addendum traces out the possible economic effects of these two scenarios on the main groups of developing countries. Without wishing to ascribe degrees of certainty to these projections, they have been used to assess the effects on a country-by-country basis. In our view they represent a prudently conservative perspective to attempt a first impact analysis.

10. Looking at the <u>non-oil effects</u> of the Gulf crisis, it can be estimated that over the 1990-92 period at least six developing countries will suffer losses in worker remittances, trade and related services equivalent on average to half a percentage point of their 1989 GDP or more. In some cases these losses are staggering in size -- 4% of GDP in the case of Egypt, and 30% for Jordan. In other cases -- Turkey, Sri Lanka, Bangladesh and Morocco -- the range is between 0.5 and 1.5% of their 1989 GDP (Table 1). In addition, Pakistan and India can also be expected to suffer significant hardship from losses related to the non-oil impact of the Gulf crisis. For these large economies, non-oil losses are small in relation to GNP, but considerably higher if related to their export base. The actual losses from worker remittances are likely to be greater than those considered here, as a significant part of these remittances presently goes unrecorded. These effects, moreover, are felt immediately and are less likely to be reversed in the short term. These losses are thus predictable with much higher certainty than those potentially resulting from future oil price developments.

11. As previously mentioned, the fiscal burden of the most immediately impacted (MII) developing countries is going to be increased substantially by resettlement expenditure, public work and other programs, consequent to the return of expatriate workers from the Gulf area. This applies in particular to Egypt, and Jordan, but it is common to most of these countries. Consequently, pressures on national budgets will increase substantially and quickly in MII countries, at a time when many, if not most of them, are implementing efforts to contain or reduce existing deficits, often in the framework of Bank-supported adjustment efforts.

TABLE 1: BANK BORROWERS MOST IMMEDIATELY IMPACTED (MII) BY THE GULF CRISIS

EFFECT / COUNTRIES	CHANGE IN EXTERNAL ACCOUNTS DUE TO NON-OIL FACTORS 1/					
	ABSOLUTE (US$ MILLIONS)			AS % OF 1989 GDP		
	1990	1991	1992	1990	1991	1992
MIDDLE EAST AND NORTH AFRICA						
Egypt	-1200	-2000	-1400	-2.9	-4.9	-3.4
Jordan	-970	-1200	-1200	-21.6	-26.8	-26.8
Morocco	-100	-100	-100	-0.5	-0.5	-0.5
Pakistan	-70	-175	-175	-0.2	-0.4	-0.4
Turkey	-1150	-2000	-1200	-1.5	-2.5	-1.5
AFRICA						
Sudan	-40	-65	-65	-0.3	-0.6	-0.6
ASIA						
Bangladesh	-50	-125	-145	-0.3	-0.6	-0.7
India	-250	-500	-500	-0.1	-0.2	-0.2
Philippines	-105	-110	-100	-0.2	-0.3	-0.2
Sri Lanka	-25	-110	-90	-0.4	-1.6	-1.3

1/ Loss of foreign revenue from worker remittances, royalties, service fees, trade with Iraq and Kuwait and tourism.

12. Estimating the full extent of possible oil-related effects of the Gulf crisis 1/ is, as already indicated, much more uncertain and dependent on the assumptions made concerning oil price developments. A rapid return to normalcy, as envisaged in oil price Scenario I of the Addendum to the Short-term Outlook would have only a limited and short-term negative impact on the aggregate balance of payments position of the oil importing countries and on the world economy. Yet, even in the absence of war and lasting damage to oil production capacity, the prolongation of uncertainty for another year to eighteen months could significantly affect oil prices and many developing oil importers.

13. For example, it can be estimated that at least 60 oil importing developing countries would be seriously affected through their balance of payments by oil price developments such as those envisaged in Scenario II. 2/ The overall external payments position of the oil importing developing countries could worsen on average by as much as 1% of their 1989 GDP over the 1990-1992 period. The most seriously affected (MSA) countries, in terms of export earnings, are shown in Table 2. 3/

14. These estimates of country effects should be taken as indicative of what might happen in a somewhat more adverse scenario. At this stage, the extent and possible duration of the oil price increase remains too uncertain to permit the choice of any specific downside outcome. The estimates, however, show that persistence of Scenario II even for 12 to 18 months could have serious effects on a number of middle income oil importing countries, such as Romania, Bulgaria, Belize, Dominican Republic, Haiti, El Salvador, Honduras, Jamaica, Nicaragua and Guyana. Many low-income countries, particularly in Sub Saharan Africa would also be seriously affected, with losses of foreign exchange equivalent to 10-20% of their 1989 exports -- Guinea Bissau, Kenya, Lesotho, Mali, Mozambique, Sierra Leone, Somalia and Uganda among them (Table 2).

III. Adjusting to the Effects of the Gulf Crisis

15. For the MII countries, coping with the effects of the Gulf crisis will require major expenditures related to the resettlement of displaced workers, which beyond the very short-term will imply new investments in housing, urban development, education, training and health. This will create additional claims on government budgets and on foreign

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1/ As the summation of losses in worker remittances and trade receipts, in addition to higher payments for net of oil imports and debt service.

2/ See Table 6 of the Addendum to the Short-term Outlook.

3/ For the criteria used to distinguish the MSA see the Addendum to the Short-term Outlook, Appendix 5 and footnote 1 to Table 1 in this note. Data for some of the smallest economies have been omitted from the Table.

TABLE 2: OIL IMPORTING BANK BORROWERS MOST SERIOUSLY AFFECTED BY A SUSTAINED INCREASE IN OIL PRICES 1/

EFFECTS 2/ / COUNTRIES	CHANGE IN EXTERNAL ACCOUNT POSITION: ABSOLUTE (US$ MILLIONS) 1990	1991	1992	AS % OF 1989 XG & NFS 3/ 1990	1991	1992
A. MII Countries						
Bangladesh	-150	-280	-230	-9.6	-17.7	-14.6
Egypt 4/	-770	-1200	-790	-6.6	-10.3	-6.8
India	-1390	-2160	-430	-6.6	-10.2	-2.0
Jordan	-1170	-1520	-1380	-38.6	-50.3	-45.5
Pakistan	-480	-900	-610	-6.2	-11.6	-7.8
Philippines	-380	-1460	-830	-3.5	-13.5	-7.7
Sri Lanka	-80	-220	-160	-4.0	-11.7	-8.5
Sudan	-90	-150	-120	-12.3	-19.5	-16.5
Turkey	-2210	-4100	-2470	-10.1	-18.7	-11.3
B. Other Middle Income Countries						
Eastern Europe:						
Hungary	-90	-910	-590	-1.2	-12.2	-8.0
Poland	-460	-2190	-1600	-4.6	-22.2	-16.2
Romania	-960	-1180	-840	-16.1	-19.6	-14.0
Yugoslavia	-350	-1240	-920	-1.5	-5.4	-4.0
Middle East and North Africa:						
Morocco	-360	-640	-420	-5.6	-9.9	-6.5
Latin America and Caribbean:						
Belize	-10	-20	-10	-6.6	-9.4	-6.1
Brazil	-1660	-3470	-1990	-4.6	-9.6	-5.5
Chile	-460	-930	-540	-4.9	-9.8	-5.7
Dominica	-3	-4	-3	-4.7	-6.3	-4.7
Dom.Republic	-210	-330	-210	-9.8	-15.3	-9.7
El Salvador	-50	-70	-50	-6.0	-9.1	-5.9
Honduras	-80	-130	-80	-7.1	-11.4	-7.2
Jamaica	-140	-210	-140	-7.0	-10.8	-6.9
Nicaragua	-60	-130	-70	-17.6	-36.7	-21.1
Panama	-80	-170	-100	-4.7	-10.4	-5.9
Uruguay	-110	-220	-130	-5.6	-10.9	-6.4
Asia:						
Korea	-2900	-4600	-2900	-4.1	-6.4	-4.1
Thailand	-1390	-2440	-1860	-5.7	-10.0	-7.6
Papua New Guinea	-90	-150	-90	-5.4	-9.0	-5.5
C. Other Low Income Countries						
Africa South of Sahara:						
Burkina Faso	-30	-40	-30	-11.6	-16.9	-11.1
Chad	-20	-30	-20	-8.7	-12.6	-8.2
Equatorial Guinea	-2	-3	-2	-6.2	-10.7	-6.9
Ethiopia	-50	-80	-50	-6.6	-11.2	-6.5
Ghana	-70	-100	-70	-7.7	-11.4	-7.4
Guinea-Bissau	-4	-7	-4	-17.4	-25.7	-16.7
Kenya	-130	-190	-120	-13.6	-21.0	-13.3
Lesotho	-20	-30	-20	-20.1	-29.7	-15.1
Madagascar	-30	-50	-30	-6.2	-11.9	-6.9
Malawi	-20	-40	-20	-7.5	-11.2	-7.2
Mali	-30	-40	-30	-10.4	-15.2	-9.9
Mauritania	-20	-30	-20	-4.4	-5.7	-3.8
Mozambique	-30	-40	-20	-18.0	-23.3	-13.1
Niger	-6	-50	-50	-1.8	-15.2	-13.4
Rwanda	-10	-20	-8	-6.5	-10.7	-5.5
Sierra Leone	-10	-20	-10	-10.1	-14.7	-9.6
Somalia	-30	-40	-20	-26.2	-38.7	-25.4
Tanzania	-30	-110	-90	-5.4	-20.8	-16.8
Uganda	-60	-40	-30	-28.7	-18.4	-11.0
Latin America and Caribbean:						
Guyana	-40	-60	-40	-15.7	-25.1	-15.7
Haiti	-20	-30	-20	-8.9	-12.7	-8.5

1/ Scenario II of the Addendum to the Short-Term Outlook. Most seriously affected are those countries whose current account deterioration is at least 2% of their 1989 GDP, or 6% of their 1989 exports of goods and non-factor services, or US$1 Billion for 2 out of the 3 years covered.

2/ Includes oil price and interest rate effects and other effects (including remittances and major disruptions in specific exports).

3/ Exports of goods and non-factor services.

4/ Egypt is technically an oil exporting country, but the net effects of the Gulf crisis are too largely negative (despite the positive oil price impact) that it falls in the category of the most seriously affected.

exchange resources, at a time when macroeconomic balances are already under considerable strain (e.g. Egypt, Jordan and Turkey), and intensification of adjustment was considered necessary even before the Gulf crisis. Most of the MII, moreover, are net oil importers, and their external balance situation would worsen for any substantial and sustained increase in oil prices. The MIIs thus have no alternative but to absorb part of the short-term effects of the Gulf crisis and to undertake the necessary macroeconomic adjustment, while dealing at the same time with the sectoral consequences of the return of national workers from the Gulf.

16. The oil-importing developing countries that are not directly affected by losses of remittances and trade as a consequence of the Gulf crisis, but are still facing oil price increases, can theoretically either attempt to finance the consequent foreign exchange loss, thus treating the oil price change as temporary, or begin adjust to it immediately as it were a permanent increase. In practice, the former choice is not likely to be open to those middle income countries which would suffer severe external account consequences from a price increase of even limited duration and/or those that are most severely indebted, and thus without access to external finance at market terms. Similarly, many low-income countries would face difficulties in securing all the concessional resources necessary to finance the short-term oil price increase, despite the relatively small absolute amounts involved at the single country level. Concessional assistance is in fact relatively fixed in the short-term, and aid reallocations, even if wanted by donors, would take time and probably be insufficient to meet the needs of all the most seriously affected low-income countries.

17. Immediate macroeconomic adjustment to the external shock being faced would, therefore, be the route that most oil importing countries have to take in the present circumstances. Previous experience has clearly shown that success in adjustment is a function not only of the appropriateness of the policy response, but also of its speed and steadiness.

18. Determining the type and shape of successful policy response depends on specific country situations. Past experience has underscored the validity of a few key principles and general lessons. One is that consumers cannot and should not be shielded from market changes. They have to face higher fuel prices in order to induce energy conservation and to promote efficient substitution. Not only do markets matter, but energy market responses to price changes are faster than previously thought. Another important lesson of experience is that macroeconomic and structural policies need to be swiftly adjusted to ensure that the internal and external balances are maintained and that the needed price adjustments take place in both product and factor markets. Indeed, as a result of the last decade of experience, the broad policy requirements of successful adjustment to an oil shock are much clear today than in the 1970s.

19. For oil importing countries suffering a terms of trade and interest rate shock, the appropriate policy response is a reduction in real domestic absorption coupled with real devaluation aimed at sustaining

output and exports. This implies not only a quick passthrough to consumers of the oil price and interest rate increases, but in most cases a nominal devaluation, supported by monetary and budgetary policies that are strict enough to cause a real devaluation to take place. Such a package of policies should minimize internal and external imbalances as well as domestic inflation, while helping to compensate for the loss of real effective demand due to reduced domestic absorption. There are inevitable costs to the countries undergoing adjustment to terms of trade losses, measurable in terms of reduced output growth, employment and real household consumption: these need to be minimized by appropriate expenditure and resource switching. Obviously, the earlier action is taken and takes effect, the lesser the losses.

20. If the oil price increase were to last longer, many middle income countries, which have no access to commercial credit and limited capacity to carry even long-term new debt at market rates, would be faced, despite early adjustment, with critically difficult choices. Their ongoing reform programs may be put seriously at risk. In order to sustain such efforts and adapt them to the new situation created by a sizeable oil shock, external assistance in the form of additional debt relief might be needed. Eastern European economies, hit simultaneously by both a regional and a global shock, would be in a particularly vulnerable situation as they already face a huge terms of trade loss as a consequence of the changes of CMEA arrangements, including those affecting supplies of oil from the Soviet Union. Finally, in order to have a reasonable chance to avoid being set back to the point where continuance of recovery would be in serious jeopardy, many of the structurally weak, most seriously affected oil importing countries of Africa and Latin America would need additional concessional assistance and more generalized relief of the burdens stemming from official bilateral debt.

IV. World Bank Response

21. The Bank can play an important role both in helping borrowers to cope with the immediate effects of the crisis and in ensuring that the adjustment and development gains achieved at such a high cost during the 1980s are sustained. In the short run, such efforts should be focussed on the MIIs and on those countries for whom higher oil prices and other factors are already creating balance of payments effects that cannot be absorbed without specific additional adjustment measures. Bank assistance could encompass three areas:

(i) assistance in designing appropriate policy responses to the shock;

(ii) reprogrammed and/or, to the extent that creditworthiness consideration permits, expanded lending programs to deal with specific effects of the crisis; and

(iii) aid coordination and assistance in mobilizing appropriate financing packages, including debt and debt service relief.

Program Design

22. Bank staff have undertaken initial country assessments of the effects of the crisis. We plan to discuss these with the country authorities during the Annual Meetings and followed up with further economic and sector work as warranted. The broad objective is twofold: (1) to help develop the necessary adjustment policy agenda in light of the changed situation; and (2) to provide the basis for individual country efforts to mobilize additional financial assistance. At this time, the priority is to develop appropriate responses to the special problems of the MIIs and any other borrowers where the near-term effects of the crisis would require immediate response by the governments.

Expanded Lending

23. The scope for expanded IBRD or IDA financing for countries affected by the crisis is somewhat constrained in the near term. Although there is some scope for accelerating disbursements in the context of the present portfolio and lending programs, many of these countries are approaching the Bank's IBRD creditworthiness limits. At the same time, the amount of concessional IDA assistance that the Bank can provide is fixed in the short run--although management plans to explore with donors the scope for supplementary contributions to IDA (see below).

24. One step that the Bank can take to assist the MIIs is to provide special emergency loans to help with the resettlement of displaced workers. Relief efforts to deal with refugees are an urgent concern for the governments of most of the MII countries. Beyond the immediate need for food and temporary shelter, however, the unexpected repatriation of large number of workers -- in addition to the loss of associated remittances -- is likely to require additional investment in housing and urban development, education and retraining, and health facilities. Financing of public works and credit programs for small and medium scale enterprises are also likely to form part of the response to the resettlement task. The Bank can finance such investments as well as related essential imports. Such loans could also be vehicles for cofinancing and provide a focus to financial assistance coordination efforts.

25. Owing to the time it may take to prepare entirely new operations, the near-term assistance from the Bank might consist more of supplements to existing investment loans. Given the limited scope for such assistance to be on commercial terms, the average size of IBRD loans for this purpose is likely to be small, and they thus need to be used in a highly catalytic fashion. In the case of IDA-only or blend borrowers, the Bank's capacity to assist in this way could be significantly enhanced by even a modest increase in IDA's resources.

26. In addition to such emergency assistance, the Bank can take a number of other steps to support borrowers' efforts to cope with the effects of the crisis. These steps, which in part would reactivate instruments we have deployed earlier in comparable situations, will need to

occur within an overall policy framework that encompasses adequate adjustment to the oil and other shocks related to the Gulf crisis. They include:

(a) Increasing/accelerating disbursements to affected countries under existing adjustment loans and credits. As discussed in the previous section, some borrowers will need to take special policy actions to deal with the crisis. Where such actions include pending policy measures under existing adjustment loans/credits, the Bank would be able to advance tranche release dates correspondingly. Where borrowers are prepared to strengthen their programs to adapt to the present shock, the Bank could provide supplementary tranches within the limits of creditworthiness guidelines and resource availabilities.

(b) Advancing planned adjustment loans and credits to MSA countries. Similarly, to the extent that the response by borrowers to the crisis entails deepening of adjustment programs or accelerating of needed policy reforms, the Bank could consider advancing the timing of currently planned adjustment operations --adapting them as appropriate to the new circumstances.

(c) Accelerating disbursements under existing IBRD and IDA project loans. During the early 1980s, the Bank undertook a special program to assist borrowers adversely affected by the 1979 oil price shock. Project disbursements were accelerated, mainly through increased Bank cost sharing and local cost financing. The scope for such increases is probably smaller now than in the early 1980s. There is less room for increasing cost sharing in the poorest countries, where it is already very high. And in accelerating disbursements, the Bank would need to be cautious so as not to undermine the completion of the underlying projects. There are likely to be substantial variations across countries: the precise scope for action could be determined only after a careful loan-by-loan review.

(d) Expanding IBRD adjustment and investment lending in energy- related areas. Finally, if higher oil prices in fact prove to be a protracted problem for borrowers, some activities may be made more urgent or economically attractive (e.g., petroleum development, alternative energy sources, energy conservation measures, etc.). If this were to occur, the Bank could accelerate project development or supplement existing operations for these purposes. In the particular case of the Eastern European countries affected by the changes in CMEA arrangements and by higher market prices for oil imported from outside the area, such efforts are already underway.

Aid Coordination

25. Faced with their special problems, MIIs need emergency relief assistance and balance of payments support. Such help should be carefully coordinated, to ensure that it supports ongoing reform efforts and the incremental adjustment policies that are now necessary. The Bank already chairs consultative groups or aid consortia in a number of cases (e.g., India, Pakistan) and it will continue to provide leadership in these or similar fora. The Bank is the lead lender in certain other MIIs (e.g., Turkey), or is a logical party to organize special aid coordination efforts or support groups where formal mechanisms do not already exist (e.g., Egypt and some of the Eastern European countries). Aside from donor and recipient country wishes, the specific role which the Bank can and should play will depend on the quality of the policy dialogue with the country concerned, the degree to which the Bank can endorse the country's economic program, and the catalytic function performed by Bank lending to these countries.

26. In addressing the incremental financing requirements of the MIIs, it is important to bear in mind that the Gulf crisis may seriously limit debt servicing capacity in some countries with significant commercial debt. Subject to the established guidelines, the Bank could provide support to these countries for debt and debt service reduction under the Brady Initiative, should it be required.

27. A number of the MIIs are IDA only or blend countries. As noted above, the Bank's capacity to assist with incremental lending on concessional terms is very limited. Management plans to explore with the donors during the Annual Meetings the extent to which supplemental contributions to IDA or special trust fund resources might be made available.

28. Finally, management also intends to monitor developments closely. If oil prices appear likely to remain high for some time -- as, e.g., in Scenario II -- consideration will need to be given to a broader program of assistance, particularly for the poorest countries. Higher oil prices will be especially burdensome for Sub-Saharan Africa and other IDA-only countries. Already fragile country programs may break down under the stress of the additional adjustment required, unless new sources of financing are forthcoming to moderate the decline in living standards.

Gulf Crisis - Talking Points

The World Bank is already taking action -- our policies provide flexibility to respond quickly in crisis situations such as these.

We have launched a program of emergency assistance to help deal with the resettlement of returning workers and their reintegration into the economy. The Bank is not a relief agency, but we can help with financing for investments that provide housing and other services and generate immediate employment and income, while building productive assets. The talent, skill and entrepreneurship which got these workers to the Middle East in the first place surely deserves to be sustained and harnessed for the future.

We are also accelerating disbursements from existing loans and credits, increasing cost sharing and advancing lending operations.

Naturally, we stand ready to help coordinate emergency assistance. I am pleased to see the quick response by many bilateral donors. This support must now be channelled effectively.

Finally, we are assisting our borrowers in designing suitable policy responses to the crisis.

Beyond the immediate months, new multilateral efforts may be required to mobilize additional concessional resources to assist necessary adjustment efforts in the affected countries. If so, we are prepared to take the lead. One option would be to raise funds for a special facility quite separate from IDA both in terms of recipient countries and donors. We will coordinate closely with the IMF and I am using the occasion of these meetings to consult with you on how such a facility could best be organized.

X X X X X X X

(In addition, as a front end to our support to affected countries, I)
(am considering making a special grant of about $30 million available)
(to the UN system to assist with the return of the workers -- this)
(could cover the cost of transport and also reception in the home)
(country.

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

①AK
②SS
③BBC
gen. file

DATE : October 1, 1990

TO : Mr. David Peretz

FROM : Moeen A. Qureshi MAQ

EXT. : 82006

SUBJECT: Note on Potential World Bank Assistance to Countries Affected by the Gulf Crisis.

1. Mr. Conable is away this week but I thought I should respond to your note to him dated September 17.

2. The short note on potential Bank assistance to countries affected by the Gulf Crisis was prepared on a very tight time schedule to ensure that member governments would get, ahead of the Annual Meetings, a brief on the magnitude of the problem and the possible options open to the Bank to help its most affected member countries. I am glad that you found it useful.

3. In preparing the briefing note we consulted with the Fund at several levels. Mr. Conable discussed with Mr. Camdessus our assessment of the situation and options open to us during a lunch that he had with him on the 12th of September. PRE staff was in touch with the Research Department of the Fund on the main assumptions concerning oil prices and related effects on the world economy. Bank operational staff talked extensively to their country counterparts in the Fund. Senior staff in the office of the SVPOP briefed Senior ETR staff on the main components of the possible Bank response.

4. You correctly note that the WEO and our Addendum to the Short-term Outlook carry different oil price assumptions. The WEO, by its nature, has to fix a base-case "most-likely" set of assumptions. In our Outlook paper, given the uncertainties surrounding oil markets, we chose to look at different scenarios, which we clearly specified and explained. In our briefing note on Bank assistance, we examined the possible effect of a downside scenario on oil on specific countries (scenario II), and clearly indicated that ours were not "most likely" estimates, but attempted instead to cover the eventuality of a more sustained increase in oil prices than anticipated in our scenario I.

5. As to the differences in results between us and the Fund, they seem to be quite small, once account is taken of the oil price factor. A more systematic verification usually takes place on a country by country basis, as the two operational staffs review and discuss their respective estimates either in the context of prospective country operations or for specific purposes (e.g. the coordination of assistance to the so-called front-line countries). The standard operational coordination, though slow and time consuming, does take place all the time and with very good

results. Work on the front-line countries is already near completion with Bank and Fund in complete agreement on the estimates of total BOP losses due to the Gulf crisis.

6. Let me assure you, therefore, that our staff is busy verifying and refining the estimates of country effects that were presented in the briefing note. In addition, the staff used the occasion offered by the Annual Meetings to gain additional information, and in some cases appropriate clarifications, from country authorities, so as to be able to supply all potential donors with the best possible estimates of the external and internal effects of the Gulf crisis on the economies of the most affected member countries. We expect to have this information available for the Bank when specific country action is considered.

cc: Mr. B. Conable

9009180088
.1

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/17 DUE DATE : 90/09/19
LOG NUMBER : 900918004 FROM : David Peretz
SUBJECT : Briefing note on potential world assistance to countries affected by the Gulf Crisis.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

- ____ APPROVED
- ____ PLEASE HANDLE
- ____ FOR YOUR INFORMATION
- ____ FOR YOUR REVIEW AND RECOMMENDATION
- ____ FOR THE FILES
- ____ PLEASE DISCUSS WITH ____
- ✓ PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE
- ____ AS WE DISCUSSED
- ____ RETURN TO ____

COMMENTS :cc: Mr. Thahane

+ WT

rec'd logged out 10/2 maria

EXPEDITE

OFFICE MEMORANDUM

To: Mr. Barber Conable

September 17, 1990

From: David Peretz DWP

Tel: 623 4560

Subject: BRIEFING NOTE ON POTENTIAL WORLD ASSISTANCE TO COUNTRIES AFFECTED BY THE GULF CRISIS

I most was grateful for the helpful briefing note produced by the staff on this subject, though, like Mr. Shiratori, I would have welcomed, even under the circumstances, a little more prior notice.

However, my main object in writing now is to mention my disappointment that it was not possible to prepare the Bank's note in consultation with the Fund. Indeed, the estimates so far prepared by the two institutions are, I believe, different--and not only because they are based on different assumptions.

I do hope it will be possible now for the staff of the two organisations to get together to produce agreed assessments--perhaps calculated on several different oil price scenarios but including the scenario adopted by the Fund for the WEO--of the likely impact of events in the Gulf on different countries or groups of countries. I know this is a difficult exercise, that it may be necessary to discuss figures with the affected countries themselves, and that for the Fund there are inhibitions on circulating figures for the impact on individual countries without their agreement. But a key role for the IFIs in the circumstances is, I believe, to produce as authoritative figures as possible, to act as a focus for considering any extra support by individual donors as well as the IFIs themselves.

cc: Mr. Boehmer
Mr. Caranza
Mr. Coady
Mr. Landau
Mr. Potter
Mr. Shiratori

file

The World Bank

ERNEST STERN
Senior Vice President
Finance

9/19

Barber –

This is for your personal use and sums up what I told you orally. Dont circulate it; wait what the consultations yield. We can still talk about this Saturday/Sunday, but I hope we'll have internal agreement on the scope and (mostly) on the response. But agreement or not you must be prepared to say something at the DevCom.

Ernie

September 19, 1990

Mr. Conable

Barber -

We have done some more talking to various people about our Gulf Crisis Strategy, and my colleagues are working with staff in Operations to try and get a more precise handle on requirements. I hope that this will enable us to give you tomorrow the basis for an agreed view.

What seem to be emerging are the following:

(1) Funding for the three most directly affected countries seems adequate. We need to check on the specific content of commitments and the likely rate of disbursement. That is one of the issues you might ask about when you meet with the Japanese.

(2) Moeen was concerned, and I think quite rightly so, that we not be seen as interested only in these three countries (Egypt, Jordan, Turkey).

(3) However, for the other immediately effected countries, the magnitudes are manageable, even though they may not be defined precisely.

(4) Our position on the immediate aspects, therefore, should be:

   (a) We encourage and appreciate bilateral pledges.

   (b) We will initiate immediate consultation to see whether we can provide reconstruction loans aimed at facilities needed by returning workers.

   (c) We can, using existing resources, increase our support in the context of agreed operations (this means we can increase adjustments loans to Sri Lanka; the Region has developed an innovative approach to using substantial amounts of available IDA funds in India). These special efforts will be funded by the reallocation of IDA resources from oil producers. (Should we wish to help finance the repatriation of refugees in Jordan, you should consider a grant to the UNCHR (or the UN relief coordinator) to help finance transport. If not already financed, Board support would be assured).

(5) The distinction between these requirements and the impact of the oil price increases is not one of timing. Moeen is quite right on this. Clearly, the impact of oil price increases has begun to affect large numbers of countries and does so increasingly as time passes. The longer the price is high, the greater the impact.

(6) To deal with these additional requirements needs a consolidated approach to fund raising. It is the interest in this issue which I believe you should explore -- i.e., support for the idea to convene a meeting, in December or early January, of OECD and Gulf countries to explore commitments of substantial additional concessional assistance to be used:

(a) To top up adjustment lending in IDA countries.

(b) To help finance the external requirements of the lower-middle income countries just beyond the IDA cut-off.

(7) In addition, we should explore whether Saudi Arabia and Kuwait will take the lead in announcing a one-year moratorium on credits due to their Governments or Financial institutions.

Ernest Stern

BRIEFING NOTE FOR MR CONABLE

GRANT FOR RETURNING MIGRANTS

Mr Conable :

* While the big rush of refugees is no longer on, there are still Asians in Kuwait and Iraq -- including 20,000 Sri Lanka women who may be subject to abuse by Iraqi soldiers and 16,000 Vietnamese workers who wish to leave but may be restrained from doing so, due to to contractual arrangements under discussion between Iraq and Vietnam. With funding the UN may help resolve these difficult humanitarian situations.

* IOM has demonstrated competence. It has evacuated 130,000 people. It is run by Purcell an American who used to head the US refugee office in Washington. IOM is out of money and has called for the Bank's help.

* Purcell estimates the financial gap at $14 million. This is not unreasonable unless peace breaks soon. Much more than this amount would be needed if hostilities break out.

* <u>A decision should be made now</u>. The options are :

\# 1. Tell IOM that we cannot help. The best in this case may be for me to write Purcell or call him to explain the situation.

\# 2. Tell the Board on Friday that the Bank wishes to help with a grant of <u>$7 million</u> -- half of the estimated gap.

\# 3. Proceed with a <u>$1 million</u> grant which I think can be scrounged from the existing Special Grant Programs budget.

* The first (DO NOTHING) option is consistent with the recommendation of Wilfried Thalwitz at the PC meeting. It is clear that the UN does not have its act together and that the Crown Prince has more political weight than the poor Sri Lanka women stuck in Kuwait.

THE DOWNSIDE OF THIS OPTION IS THAT YOU MAY BE SEEN TO GO BACK ON YOUR STATED DESIRE TO HELP. TO SAY NOW THAT THE NEED IS NOT PROVEN OR THAT OTHERS WILL EVENTUALLY PAY OR THAT PRINCE SADDRUDIN SHOULD HAVE PRESSED THALWITZ IN NEW YORK MAY BE PICTURED BY ILL WISHERS (IRWIN'S FRIENDS) AS CALLOUS ESPECIALLY IF SUBSEQUENT PUBLICITY ABOUT THE AVOIDABLE PLIGHT OF SRI LANKANS AND VIETNAMESE MIGRANT EMERGES.

* The second ($7 MILLION) option is not without risks in terms of the UK and German chairs -- as we already know. But there would be broad understanding at the Board of the position you would have taken. The lower (than $30 m) amount will also

help secure support for the position.

THE ADVANTAGE OF THIS OPTION IS THAT IT IS THE MOST PRESIDENTIAL AND CONSISTENT. THERE IS A HUMANITARIAN NEED EVEN THOUGH IT IS NOT AS PUBLICIZED AS IT WAS WHEN THE TV CREWS WERE IN JORDAN. AND THE BANK WOULD INDEED HELP FUND A GAP NOT MET BY OTHER DONORS.

* The third ($1 MILLION) option has the merit of being, in principle at least, entirely in your hands. The President can make SGP decisions without reference to the Board. In practice, of course, the Board would be told. But the money has been appropriated already -- in the regular budget.

THE DOWNSIDE OF THIS OPTION IS THAT $1 MILLION COULD BE VIEWED AS PITIFULLY SMALL BY THE UN AND THE PUBLIC. ON THE OTHER HAND THE OPTION AVOIDS REQUESTING THE BOARD AND THE GOVERNORS FORMALLY AND THE GESTURE WOULD STILL BE APPRECIATED IF TAKEN QUICKLY.

Should you decide to go ahead with a grant proposal, I will go to Geneva to sort out the modalities early next week and will be accompanied by Operations staff as previously indicated by Moeen.

Bob Picciotto

*   *   *

Dec 6

OK
BBC 9/21/90

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 21-Sep-1990 03:52pm

TO: See Distribution Below

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: Gulf Crisis

Sven:

The attached reflects the latest information I have secured and takes account of comments received, including detailed and very helpful comments by Messrs Thalwitz and Shihata. Mr Qureshi is comfortable with the approach. Indeed, he is the main architect of the concept.

Please note Mr Wood's reservations, however.

I would appreciate confirmation of the President's approval of the recommended course of action.

Separately, Wilfried Thalwitz and Alex Shakow are considering a modest initiative which, with the President's agreement, might be funded out the SGP FY91 Presidential contingency ($0.6 m) and demonstrate the Bank's interest in involving the NGOs in the rehabilitation and recovery programs of the Bank in affected countries. A separate note on this subject is under preparation in PRE.

Bob

DISTRIBUTION:

TO:	Sven Sandstrom	(SVEN SANDSTROM)
CC:	Moeen A. Qureshi	(MOEEN QURESHI)
CC:	D. Joseph Wood	(JOE WOOD)
CC:	Wilfried Thalwitz	(WILFRIED P. THALWITZ)
CC:	Ibrahim Shihata	(IBRAHIM SHIHATA)
CC:	Alexander Shakow	(ALEXANDER SHAKOW)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 21-Sep-1990 03:41pm EST

TO: Peter Richardson (PETER RICHARDSON)
TO: Barun Chatterjee (BARUN CHATTERJEE)

FROM: Robert Picciotto, CPBVP (ROBERT PICCIOTTO)

EXT.: 30202

SUBJECT: REVISED VERSION

To : Mr Barber B. Conable

From : Robert Picciotto

Subject : Gulf Crisis : Emergency Grant for Returning Migrants

In addition to the measures already announced to the Executive Directors to help affected developing member countries cope with the economic aftermath of the invasion of Kuwait -- i.e. loss of export markets, foreign remittances, higher oil prices, etc. -- you have directed that we explore means of alleviating the direct human impact of the crisis through an emergency grant. This memorandum proposes an approach to meet this objective.

Background

Most of the evacuees are nationals of Egypt, Pakistan, India, Bangladesh, Sri Lanka and the Philippines. While many of them had accumulated savings from their work in Iraq or Kuwait, recent events have rendered them destitute. Many held menial jobs; although some of them possess substantial skills. Women and children have been affected and the turmoil in the region has left entire families in dire need of emergency support to subsist from day to day, make the journey back home, get resettled and secure a livelihood for themselves and their dependents.

Some returning migrants will benefit from the support of families and friends back home. But many will have no one to turn to. Resettlement into the home countries will call for substantial outlays, especially since migrants typically originate from economically depressed or neglected areas.

The economic dislocation associated with the exodus of people out of Iraq and Kuwait is bound to be considerable and will require costly remedial measures in terms of resettlement and reintegration in the local economies of their home countries. However, the first and most urgent priority, from a humanitarian perspective, currently lies with the evacuation of returning migrants from Iraq and Kuwait back to their countries of origin.

Tentative information provided by the International Migration Organization suggests that about 500,000-700,000 people have already been repatriated and that another 2 million developing country nationals (mostly Egyptians and Asians) may still be in Iraq and Kuwait. Accurate figures about returnees are hard to come by since evacuation arranged by bilateral means and through private means accounted for a large share of initial outflows with no central monitoring. It is, of course, even more difficult to project the future flow of evacuees or its geographical pattern since both will depend on a variety of factors, including the policies of the Government of Iraq regarding foreign nationals, the security prospects of the region and the arrangements made for evacuation.

Whereas initial returnees flows were concentrated on the Jordan transit route -- causing a major and dangerous concentration of people in the desert in an area where living amenities were few and transport facilities inadequate -- the situation at the Iraq border area is now under reasonable control with about 20,000 people in camps and adequately organized logistics. Turkey is another major transit route where appropriate arrangements have been made to ensure orderly movement out of the camps. To minimize human suffering and costs, diplomatic and logistical planning efforts are currently being made by UN agencies to facilitate evacuation through a variety of modes and routes, including direct flights and overland transport directly out of Iraq and Kuwait.

The UN Response

Thus, we stand at a juncture when the main focus of international attention is on the evacuation phase. Because the affected people are not (strictly speaking) refugees, the UN has determined that rather than the UN High Commission for Refugees (UNHCR) it is the International Organization for Migration (IOM) -- working on behalf of the UN Disaster Relief Organization (UNDRO) -- which is to take the lead for the UN system with respect to the evacuation of returning migrants by arranging the needed overland, air and sea transport and securing the logistics.

The International Committee of the Red Cross (ICRC) and other relief organizations (League of Red Cross and Red Crescent Societies) are providing assistance in connection with the transit camps in neighboring States. Other UN agencies, each within the scope of its individual mandates, are currently reviewing their programs to assist in the resettlement process.

At the end of August, when the crisis erupted, UNDRO appealed for donations to respond to the alarming situation of returnees in Jordan. Direct appeals were also issued by the International Red Cross and other non-governmental organizations. About $110 m has been pledged, of which $85 million for transit and evacuation requirements -- about half in cash and the balance in contributed services.

The UN Secretary General announced on September 12, 1990, that Sadruddin Aga Khan (over and above his responsibilities as Coordinator of Assistance Programmes related to Afghanistan) will act as Mr Javier Perez de Cuellar's Personal Representative for all humanitarian assistance connected with the Gulf crisis. It appears that this will involve oversight of the operations of all UN agencies -- including UNDRO, IOM, UNICEF, WHO, WFP, UNDP, etc. Mr Qureshi talked to Sadruddin Aga Khan on September 20, 1990. The recommendations which follow flow out of Mr Qureshi's conversation with Sadruddin Aga Khan.

Briefly, in a first phase, the UN has secured funding for the transport and the logistical support arrangements needed to take care of the first wave of returning migrants. However, people are still streaming across borders and prudence requires that arrangements be made for the possibility of another wave of returning migrants of a similar intensity as that which temporarily overwhelmed Jordanian authorities. It is towards this second phase that Bank emergency grant assistance is likely to be required.

The third phase of UN action will focus on the reintegration of returning migrants into the economies of their home countries. It is likely that the UNDP will provide coordination services in each of the affected countries on behalf of the UN system. In some of these countries, Bank emergency lending would also be provided in parallel as part of the Bank's program to assist countries affected by the Gulf crisis. Effective targetting of assistance will pose special challenges and close Bank-UN-NGO cooperation will be ensured to ensure effective support for national rehabilitation and special social support programs related to the crisis and its aftermath.

Proposed Emergency Grant

Given the above, a grant by the Bank of up to $30 million is proposed to support United Nations humanitarian assistance programs, in line with the initiative of the Secretary General. The grant would be funded out of the proceeds of FY90 net income, requiring an amendment in the net income allocation report to the Governors and prior approval of the amendment by the Executive Directors.

Given the urgency, we would seek approval of the allocation for the proposed emergency grant prior to the formulation of a specific program towards which the grant funds would be applied. Contacts with the UN agencies concerned has been initiated and further consultations with Sadruddin Aga Khan are planned for the week of October 8, 1990. A report on the proposed program would be presented to the Executive Directors for their approval before the end of October, following which the grant would be made effective.

The advantages of this course of action are obvious. We would be relieved of allocation decisions among member countries. We would not need to become involved in grant program design and administration for which we are not equipped. There would be a clear operational distinction between this grant action -- a gesture of multilateral solidarity -- and other Bank assistance to affected countries.

Funding

The most relevant parallel for the proposed emergency grant are the $2 million and $3 million contributions to the World Food Program made in April, 1984 and January 1985 in connection with a disastrous Sub-Saharan drought.

These two grants triggered questions from Executive Directors. On February 15, 1985, Mr Shihata prepared a memorandum (SecM85-172) about the power of the Bank to make grants. The memorandum affirmed that the Bank has the power to make grants which fall within Article 1 of the Charter which describes the purpose of the Bank as assistance for "the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes."

The memorandum explicitly set aside the issue of whether the Bank can make grants to provide relief assistance (such as food, medicine, etc.) In the case at hand, the prompt return and smooth integration of the evacuees in the economies of their countries of origin has a distinctive development impact by removing an economic burden from affected neighboring countries and by minimizing the budgetary and balance of payments drain suffered by countries immediately affected by the crisis. Such action would also be the first step in the Bank's projected assistance in the rehabilitation efforts presently envisaged to be partially financed by Bank loans and IDA credits to affected countries.

Accounting considerations aside, Mr Shihata's legal opinion made clear that grant funding can be taken either out of gross income, or out of net income. Grants taken out of gross income are expensed and funded out of the special grants program budget. Should we opt for this approach, a budget supplement will have to bne approved by the Executive Directors.

On the other hand, a grant taken out of net income would have to be deemed to benefit the membership as a whole and will require the approval of the Governors. In this case, since the program funded by the proposed Emergency Grant will be undertaken in the framework of UN approved resolutions, it should not be difficult to argue that it fits the net income criterion.

Ample funds available out of FY90 net income have yet to be allocated. The Annual Meetings offer the opportunity to get the Governors involved in the decision (through the Board of Executive Directors). One advantage of this option is that it will symbolize the unique and exceptional character of this action.

I believe it would be best to avoid a precedent whereby the administrative budget is the preferred source for emergency assistance. (While the Sub-Saharan drought rehabilitation operations were funded out of the budget, there was unease at the Board arising from this treatment -- and no supplement was required since the grant could be accommodated within the originally authorized budget envelope.)

A grant from net income approved by the Board of Governors is also likely to have a greater public impact and could be seen as a gesture by shareholders with regard to funds that could otherwise be available for distribution.

Mr Wood has misgivings about the proposal mainly because he sees it as an ad-hoc decision, potentially inconsistent with the framework for the use of available income which has been circulated to the Executive Directors for a discussion in mid-October. I personally do not see this extraordinary use of net income as inconsistent with the proposed framework since the framework does refer to possible uses of net income for high priority, high leverage application of funds.

Messrs Qureshi, Thalwitz and Shihata consider the net income option to be viable and I commend it for your approval.

Per SS: This will not be sent out due to strong opposition from major EDs. Log closed. *SS AK

(CP - 9/22)

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/22 DUE DATE : 90/09/23
LOG NUMBER : 900922002 FROM : B. Picciotto
SUBJECT : GULF CRISIS: Emergency Gramt

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

- ____ APPROVED
- ____ PLEASE HANDLE
- ____ FOR YOUR INFORMATION
- ✓ FOR YOUR REVIEW AND RECOMMENDATION
- ____ FOR THE FILES
- * ✓ PLEASE DISCUSS WITH BBC (for sign.)
- ____ PLEASE PREPARE RESPONSE FOR ____ SIGNATURE
- ____ AS WE DISCUSSED
- ____ RETURN TO ____

COMMENTS :NOTE: Received from Picciotto on 9/22 (1:40 pm).

Messrs. Sandstrom and Khanna have copies. (CP)

EXPEDITE

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 22, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, VPCPB

EXT: 30202

SUBJECT: **Gulf Crisis: Emergency Grant**

1. Attached is the draft Board paper which reflects comments received from Messrs. Qureshi, Thalwitz, Shihata and Thahane.

2. Mr. Stern did not comment on the draft as he judged processing of this document to be premature. I understand that processing of this proposal during the annual meetings is no longer considered viable. Looking ahead, we have three options:

(a) drop the proposal altogether;

(b) circulate the attached proposal for a review by the Executive Directors at the first opportunity available following the Annual Meetings;

(c) carry out additional preparatory work, i.e. design a specific program, prior to consideration of any proposal by the Board.

3. Option (a) would carry severe credibility costs for the institution. Option (c) is not attractive since it would create pressures for further expansion of the proposed grant size and concept as well as possible criticisms of the Bank's cumbersome and hesitant approach to crisis situations.

4. This leaves option (b) which I would favor. It would allow a transparent discussion with the Board of the issues involved and it would help provide a clear mandate to the staff involved in the preparation of a suitable program to be funded by the proposed grant. Hence, I would recommend your signature of the attached document on the assumption that you still wish to proceed with this gesture of multilateral solidarity.

Attachment

cc: Messrs. Qureshi
Stern
Thalwitz
Shihata
Thahane
Sandstrom
Khanna

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

BARBER B. CONABLE
President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Emergency Grant

Introduction

1. This memorandum proposes an exceptional grant contribution to the United Nations program of humanitarian assistance related to the Gulf crisis, in the equivalent of up to $30 million, to be funded out of FY90 net income.

2. The proposed grant would complement the measures the Bank proposes to take to help affected developing member countries cope with the economic aftermath of the Gulf crisis (SecM90-1198).

Background

3. For the past few weeks, turmoil in the region has left thousands of persons displaced by the crisis in dire need of emergency support to subsist from day to day, make the journey back home, get resettled and secure a livelihood for themselves and their dependents.

4. Resettlement of evacuees will call for substantial outlays, especially since migrants typically originate from economically depressed or neglected areas. The remedial measures to help returnees become integrated in the local economies of their home countries will be demanding. However, the first and most urgent priority lies with the evacuation of returning migrants back to their countries of origin.

5. Data secured from a variety of sources suggest that about 0.5 million people have already been repatriated and that some 1.5 million or more developing country nationals (mostly Egyptians and Asians) remain in Iraq and Kuwait. It is difficult to project the future flow of evacuees or its geographical pattern: both will depend on such factors as the policies of the Government of Iraq regarding foreign nationals, the security prospects in the region and the arrangements made for evacuation.

6. Returnee flows initially led to a dangerous concentration of people in desert areas where living amenities were few and transport facilities inadequate. The situation is now under orderly control but returning migrants are still moving across borders and potential accelerations of human movements and attendant risks need to be taken into account. To minimize human suffering and costs, efforts are being made to facilitate evacuation through a variety of modes and routes, including flights and overland transport directly out of Iraq and Kuwait.

The UN Response

7. The affected people are not, strictly speaking, refugees. Therefore, the UN has determined that rather than the UN High Commission for Refugees (UNHCR), it is the International Organization for Migration (IOM)—working on behalf of the UN Disaster Relief Organization (UNDRO)—which will take the lead for the UN system with respect to the evacuation of returning migrants. For the past several weeks, IOM has been active in making arrangements for overland, air and sea transport and the logistics needed for orderly evacuation of returning migrants.

8. In parallel, the International Committee of the Red Cross (ICRC) and other relief organizations (League of Red Cross and Red Crescent Societies) has been providing assistance in connection with transit camps located in neighboring States. Other UN agencies, each within the scope of its particular mandate, are currently adjusting their programs in affected countries to assist in the resettlement process.

9. The UN Secretary General announced on September 12, 1990, that His Highness Sadruddin Aga Khan (over and above his responsibilities as Coordinator of Assistance Programmes related to Afghanistan) will act as Mr. Javier Perez de Cuellar's Personal Representative for all humanitarian assistance connected with the Gulf crisis. This will involve oversight of the operations of all UN agencies—including UNDRO, IOM, UNICEF, WHO, WFP, UNDP, etc. Following consultations with His Highness Sadruddin Aga Khan, joint UN/Bank identification of a program suitable for grant support by the Bank—within the overall humanitarian assistance effort coordinated by the United Nations—would be initiated upon approval of the proposed course of action.

The Proposed Grant

10. The purpose of the proposed grant is to facilitate the orderly evacuation and reinstallation in their home countries of persons displaced by the Gulf Crisis. In a first phase, now nearing completion, the UN secured funding for the transport and the support services needed to take care of the emergency created by the hostilities. However, people are still seeking repatriation in large numbers and prudence requires that resilient arrangements be made for a potential increase in the flow of returning migrants. It is for this second phase that Bank emergency grant assistance is especially needed.

11. The third phase of UN action will focus on the reintegration of returning migrants into the economies of their home countries. For this phase, preparatory work has just begun and effective targeting of assistance will pose special challenges. Close Bank-UN-NGO cooperation is envisaged to ensure effective support for national rehabilitation and special social support programs related to the crisis and its aftermath. Some allocations out of the proposed grant may be made for preparatory or initial and urgent actions related to this third phase.

12. An emergency grant of up to $30 million is proposed to support the United Nations humanitarian assistance program related to the Gulf crisis. The grant would be funded out of the proceeds of FY90 net income. Preliminary contacts with the UN agencies concerned have been established. Proposals for a specific program to be partially funded out of the grant would be presented to the Executive Directors for their approval by the end of October, following which a grant agreement would be entered into with the selected administrating agency (or agencies) of the UN system.

Justification

13. The United Nations system is well suited to deal with the humanitarian aspects of regional conflicts. A significant field infrastructure has been established to deal with the migration flows currently taking place in the countries affected by the Gulf crisis. The Bank is not equipped to oversee or administer evacuation assistance of the kind required.

14. The proposed grant represents about a third of the requirements which the UN agencies directly concerned have tentatively estimated for the second phase of the program. It is a very small fraction of the estimated total costs which remain to be incurred by all sources for repatriation and rehabilitation.

15. The orderly return and integration of the evacuees in the economies of their countries of origin would have a distinctive development impact. It would remove a substantial economic burden from affected neighboring countries. It would help minimize the budgetary and balance of payments drain suffered by countries immediately affected by the crisis. And such action would also be a logical first step in the Bank's projected assistance to the rehabilitation efforts presently envisaged to be partially financed by Bank loans and IDA credits to affected countries.

Recommendation

16. The Executive Directors' report dated June 5, 1990 on the Allocation of FY90 Net Income has already been forwarded to the Board of Governors for consideration at the 1990 Annual Meetings. The Report recommends that the Board of Governors adopt a resolution noting with approval the addition of $750 million to the General Reserve and the retention of any excess of net income over $750 million as surplus pending a decision on its further disposition prior to March 31, 1991.

17. I recommend that the Executive Directors approve the attached Supplemental Report on the Allocation of FY90 Net Income, which recommends that the Board of Governors approve an amended resolution (attached to the Supplemental Report) by which the Bank would be authorized to make the grant described on this report out of the excess of net income over the $750 million which have been added to the General Reserve.

**GULF CRISIS: EMERGENCY GRANT
PRELIMINARY ESTIMATES OF RETURNEE FLOWS
AND EVACUATION COSTS [1]**

(This is a partial list. Nationals of other developing countries (Turkey, China, Yugoslavia, Thailand, etc.) with returning migrants have not been included in the list because of the relatively small magnitude of the remaining evacuation costs.)

Developing Country	Estimated Number In Iraq/Kuwait Before Crisis	Estimated Number Returned As Of 9/20/90	Assumed Number Of Additional Evacuees	Estimated Transport Cost Per Returnee	Estimated Evacuation Costs ($m)
Egypt	1,500,000	300,000	200-300,000	$145	29-44
India	180,000	50,000	60-130,000	$400	24-52
Sri Lanka	100,000	20,000	80,000	$450	36
Bangladesh	85,000	30,000	30-55,000	$450	14-25
Pakistan	100,000	50,000	50,000	$375	19
Philippines	50,000	10,000	40,000	$700	28
	2,015,000	460,000	460-655,000		150-204

1/ These estimates and ranges reflect preliminary judgments applied to estimates from UNDRO, the World Bank Country Departments and other sources. They do not reflect costs of transport between the port of entry in the home country and the final destination. Nor do they include resettlement costs.

REPORT OF THE EXECUTIVE DIRECTORS

(DRAFT)

Allocation of Net Income

Supplemental Report

1. On June 5, 1990, the Executive Directors of the Bank approved a report to the Board of Governors on the Allocation of FY90 Net Income, for consideration by the Board of Governors during its 1990 Annual Meeting. The Executive Directors concluded that the interests of the Bank and its members would be best served by:

(a) the addition of $750 million of the net income of the Bank to the General Reserve; and

(b) the retention of any excess of net income over $750 million as surplus pending a decision on its further disposition prior to March 31, 1991.

The report recommends that the Board of Governors adopt a resolution noting with approval the said addition to the General Reserve and retaining any excess of net income over $750 million as surplus as stated in the report (Bank Document No. 2).

2. On September 24, 1990 the Executive Directors discussed a recommendation of the President of the Bank that the Bank be authorized to make a grant of up to the equivalent of $30 million to an appropriate agency (or agencies) of the United Nations for the purpose of assisting in the international efforts to help the people displaced as a result of recent events in the Gulf Area.

3. The Executive Directors have concluded that it would be in the interests of the Bank and its members to make the grant of up to $30 million described in the preceding paragraph out of the Bank's net income for the fiscal year ended June 30, 1990 and to retain any excess of net income over $780 million as surplus pending a decision on its further disposition prior to March 31, 1991.

4. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the report of the Executive Directors dated June 5, 1990 as modified by this supplemental report and adopt the draft Resolution attached as Attachment A hereto, which supersedes the draft Resolution attached to the earlier report.

September 24, 1990

ATTACHMENT A

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(DRAFT)

RESOLUTION NO

RESOLVED:

1. THAT the Report of the Executive Directors dated June 5, 1990 and the Supplemental Report of the Executive Directors dated September 24, 1990 on "Allocation of FY90 Net Income" are hereby noted with approval;

2. THAT the addition to the General Reserve of the Bank for the fiscal year ended June 30, 1990 of $750 million of net income is hereby noted with approval;

3. THAT the Bank is authorized to make a grant in an amount equivalent to up to $30 million to an appropriate agency (or agencies) of the United Nations, to be used for assisting in the resettlement of people displaced by recent events in the Gulf Area, out of the net income of the Bank for the fiscal year ended June 30, 1990, such transfer to be made at a time and in a manner decided by the Executive Directors.

4. THAT any excess of net income over $780 million shall be retained as surplus pending a decision on its further disposition prior to March 31, 1991.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 3, 1990

TO: Mr. Barber B. Conable

FROM: R. Picciotto, CPBVP

EXT: 30202

SUBJECT: **Gulf Crisis: Returning Migrants**

With reference to the meeting with the Executive Directors on October 9, 1990, please find attached a technical note and a Q & A sheet on the above subject.

cc: PC Members
Mr. S. Sandstrom
Mr. A. Khanna

Gulf Crisis: Emergency Assistance for Returning Migrants

Q & A Sheet

Is more money needed for evacuation ?

- IOM has received cash pledges of $47 million (plus $8 million in donated services), in response to its initial appeal for $60 million for moving 100,000 Asian nationals. IOM considers that an urgent need for cash and in-kind resources still exists.

- IOM made arrangements for the departure of 56,700 Asians from Jordan and Turkey, with an additional 25,500 booked till the end of September.

What is the situation on the ground ?

- The situation in Jordan had earlier temporarily stabilized with outflows matching inflows. However, recent reports indicate a surge in new arrivals.

- With food shortages in Iraq and Kuwait looming, IOM considers that it is essential to be ready for another wave of evacuees.

How do we know how much money is needed ?

- There may be 400,000 Asians still trapped in Iraq and Kuwait -- as well as over 1 million Egyptians -- and even if IOM is called upon to handle only one quarter of the displaced Asians, it will need $50-70 million extra for the task. IOM has almost no funds left to evacuate a second wave of migrants.

- We will, of course, find out the intentions of other donors before we decide to provide "up to $30 million."

- Obviously, if we wait long enough, others will come forward to fill the gap. In the end, the developing country governments concerned will be compelled to do the job on their own -- as they did to a large extent at the outset of the crisis. But this will place severe strains on their financial and logistical capacity. Therefore, the international community has a responsibility to help them.

What if EEC and others put in the money needed by IOM ?

- The bottom line is that after a slow start, IOM is now handling a substantial share of the evacuees -- precisely those who are the poorest and most vulnerable. A grant allocation to IOM would help minimize the human costs of the Gulf crisis. And it would indirectly relieve many of the hardest hit developing countries from the organizational and financial burdens involved in repatriating their nationals.

- Whatever, out of a $30m grant, is not used for evacuation can be used effectively for resettlement under the third phase of the UN humanitarian assistance program.

Would this grant, for the first time, put the Bank in the relief business ?

- Not at all. It has long been the practice for the Bank to make modest provisions out of its income for high leverage grant allocations for high priority development purposes (CGIAR, Sub-Saharan drought, etc.) This is one such exceptional case.

- The grant would be managed by specialized UN agencies according to criteria agreed with the Bank and approved by the Bank's Board.

- The purpose of the grant is intrinsically developmental as it protects a vital developing country asset -- people -- and as it ties in with the Bank's emergency assistance program for the most immediately impacted countries.

Why would the grant be funded out of net income ?

* Net income funding would be appropriate for several reasons:

- The grant will have a wide beneficial impact, because it will assist a number of developing countries seriously burdened by the consequences of U.N. sanctions.

- It will represent the Bank's participation in international collaborative efforts for evacuation, led by the U.N.

- It will complement the adjustments being made in the Bank's regular lending programs for the affected countries.

- By obviating the need for a supplementary budget allocation, it would keep the grant distinct from the administrative budget.

- The grant represents a relatively modest, one-time draw on the unallocated portion of FY90 net income ($295 million).

10/3/90

October 3, 1990

Gulf Crisis: Emergency Assistance for Returning Migrants
Technical Note

1. Information available from a variety of sources indicates that the costs of evacuating the first wave of returning migrants, numbering approximately 500,000, have been fully met. The evacuation costs were financed by funds raised through the IOM appeal, emergency financial assistance provided by the EEC and its member states, and air/sealifts run by the affected countries themselves (principally, India and Pakistan).

2. In the event the security conditions in the region or food supply in Iraq worsen, a large number of migrants would start moving out of Iraq and Kuwait at very short notice. Indeed, recent reports indicate that such flows may have already started. IOM, other relief agencies and governments might then be faced with having to evacuate an additional 650,000 returnees. This number could swell to 1.5 million, if all Egyptian nationals remaining in Iraq and Kuwait decided to return to Egypt.

3. The cost of returning a potential 650,000 migrants to their home countries is estimated at about $200 million. This figure would increase to $330 million if all remaining Egyptians have to be evacuated.

4. Available data suggest that almost no surplus funds remain in the hands of IOM to meet the evacuation costs of a second wave of migrants. While it is likely that further cash pledges in response to U.N. appeals and aid from the EEC and its member states, would be forthcoming in the event of a resumption of substantial returnee flows, the "financing gap" would still be sizeable. This funds shortage could seriously hamper the evacuation efforts of IOM.

5. The overall funding situation regarding transport costs is summarized below:

	$m
Migrants returned to date:	
Estimated costs of transporting migrants from Egypt, Sri Lanka, Bangladesh and Philippines[1]	74-80
Funds raised through IOM appeal (cash pledges) and assistance from EEC and member states	79
	======
Potential further migrants:	
(a) Estimated costs of transporting 650,000 migrants[2]	200
(b) Estimated additional costs for remaining 900,000 Egyptians	130
	330
	======

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[1] Information received to date indicates that the Indian and Pakistani governments have evacuated most of their own nationals.

[2] If India and Pakistan continue to handle the evacuation of their own nationals, the estimated transport costs would be reduced by about $70 million.

6. IOM appears to have moved about one-half of the Asians (80,000 out of 160,000) evacuated to date. If it were to similarly move one-half of the remaining 350,000-400,000 Asians, its costs would amount to at least $105-120 million (at an average of $600 per capita, the figure used by IOM in its appeal).

7. A Bank grant of $30 million would amount to about 25% of the projected IOM costs.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: September 8, 1990

CONFIDENTIAL

DECLASSIFIED

OCT 21 2022

WBG ARCHIVES

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi MAQ

EXTENSION: 82006

SUBJECT: Bank Response to the Gulf Crisis

1. As you know, we are in the process of preparing a country by country analysis of the effects of the Gulf crisis on our borrowers. The preliminary results of this work will be distilled into a note for the Board, which will be sent to you and the PC on Tuesday, with a Board briefing scheduled for Friday, September 14. This briefing will update and expand that given 10 days ago by PRE, and will include some discussion of the general lines of response required by the borrowers themselves, as well as rough estimates of additional financing required and--in general terms--what we would propose to do by way of assisting countries in coping with the effects of the crisis.

2. It is now clear, however, that special programs of assistance will be at the heart of the Annual Meeting discussions, notwithstanding the high degree of uncertainty about the magnitude and duration of the crisis and its economic effects. Thus, I do not believe that we can go into the Annual Meetings without some fairly clear ideas as to what role the Bank can play in this particular issue.

3. Accordingly, I have asked Operations' managers, particularly the Country Directors responsible for the most immediately impacted countries, to develop within a few days quite specific ideas as to how we can assist individual borrowers in dealing with the new burden of adjustment that the crisis has created for them. A framework for what we might do is set out below.

4. At the outset, we need to recognize that there are a number of complications in defining an expanded role for the Bank. First, as noted already, we don't know how long the crisis will last and what its effects will be on oil prices over the medium term. Thus, it is difficult to prescribe adjustment programs at this stage, though the prudent approach is clearly to expect the higher prices to be sustained for some period of time. Moreover, the magnitude of the crisis for many countries appears to be well in excess of the amount of financial assistance likely to be available. Second, whatever we do, it will represent only a limited contribution to the incremental financing requirements of the most seriously affected countries. The amount of IDA money is fixed. And many of the IBRD countries already had limited capacity to take on additional debt on commercial terms. The crisis has reduced this capacity even further. Even in the middle-income countries, therefore, the major part of the incremental financing will need to be on concessional terms. Additional debt relief will be required in a number of countries.

5. Third, no special program of assistance covering all borrowers will stand a chance at this stage. Such a program would only be justifiable on the basis of a sustained increase in the price of oil. Thus we need to think in terms of a program targeted on a narrower group of countries, i.e., those for which the loss of remittances and other invisible earnings plus the need to repatriate large numbers of refugees will be particularly burdensome. Fourth, we nonetheless need to find a way of responding, at least modestly, to the needs of all our borrowers. This applies <u>a fortiori</u> to the poorest countries, particularly those in Africa, where the impact of oil prices is most severe in terms of income effects.

6. Finally, there is a significant danger that the crisis and the associated emergency financing that will now become available to some countries will set back our structural reform programs. Thus, we need to find a way to use our limited financial leverage to shape the way in which emergency assistance is provided. Ideally, we would want to be in a position of coordinating this assistance in individual countries.

7. These considerations suggest that our response should be made up of three parts, intended to put us in a position to convene aid coordination meetings as necessary. To this end, we propose to use our lending program (and economic work) as the basis for coordinating emergency assistance in the most immediately impacted countries and, more generally, to catalyze additional or reprogrammed assistance to all countries that are significantly affected by the higher oil prices.

8. <u>The first component will need to focus on what we can do with our existing lending instruments and portfolio.</u> Here the main elements would be those that we have undertaken in the past, namely a reshaping of our lending program and disbursements pipeline so as to adapt them to altered priorities on a country by country basis. We are currently looking at the scope for several specific measures on a country by country basis: acceleration in the timing of tranche releases, supplements to existing adjustment loans, advancing the timing of planned new adjustment loans and credits, supplements to existing project loans and accelerating disbursements on project loans. However, given the changes in our lending since 1980, the effects of such measures will be more limited on this occasion. Also, acceleration of project disbursements entails a temporary relaxation of operational policies on cost-sharing. The most difficult task with respect to enhanced adjustment lending will be to get countries to take sufficient measures to maintain present programs (needed for accelerated releases and supplements) or to advance additional policy reforms (needed for acceleration of planned lending).

9. <u>The second component--focussed on the most immediately impacted countries--should be a special type of emergency recovery loan.</u> These loans would be for the specific purpose of enabling countries to deal with the costs of resettling refugees and finding new sources of income/employment to make up for the loss of remittances. Barring a quick resolution of the Gulf crisis (i.e., an immediate Iraqi withdrawal), the effects on worker remittances and

other invisible earnings from the Middle East is likely to be protracted. The size and composition of such operations would be country-specific, but would generally be designed to cover housing and urban development, training and credit for small and medium-sized industries. The basic concept here is analogous to other emergency lending by the Bank, e.g., for earthquake reconstruction. In this case, the "disaster" is a significant shock to a borrower's invisible earnings coupled with emergency resettlement costs. We would seek to use such loans as the anchor for expanded cofinancing efforts.

10. The main issues associated with this approach include:

- First, what criteria should govern eligibility for such loans? Related to this, can the criteria be drawn in such a way that the appropriate countries benefit without eligibility becoming so broad that the current aversion to general programs would block the initiative? We are currently working with a list of 10 countries--Bangladesh, Egypt, India, Jordan, Pakistan, Philippines, Somalia, Sri Lanka, Sudan and Turkey--where such effects are significant and where the overall effect of all factors including oil prices exceeds 1% of GDP or 10% of exports.

- Second, can we mount such operations fast enough to be effective in dealing with the urgent need for additional balance of payments support? Here the answer is clearly yes, but we will need to work out the cost in terms of disruption to existing work programs and incremental administrative budget.

- Third, will such loans give us the instrument needed to anchor our role in coordinating overall emergency assistance? Obviously, the impact of such loans will vary from case to case, but I believe that they will be seen as a constructive and appropriate response by the Bank, especially in conjunction with the reprogramming of other lending to the country.

Finally, we will need to make certain that any special legal issues can be dealt with satisfactorily.

11. <u>The third element of our response should be designed to deal with problems of the other low income countries.</u> This is mainly an issue of finding some further financial assistance to cope with higher oil prices. There may be some scope for raising a supplement to the SPA, and I have asked Kim Jaycox to start canvassing the donor countries to see what might be done. We also have the special problem of IDA-only and weak blend borrowers such as Bangladesh and Sri Lanka. They will need some additional concessional funds; it would be highly useful if we could increase the amount of IDA money going to them. One possibility would be to approach the Saudis and other Gulf states for special supplemental contributions to IDA 9, where it would be understood that these funds would be used in the most seriously affected countries.

12. On the basis of the preliminary assessments now being completed--and subject to your overall approval--Operational managers will review these assessments with individual country delegations and donors during the Annual Meetings. Depnding on the outcome of these discussions, the objective is to be in a position to convene special aid coordination meetings for the most immediately impacted countries soon after the Annual Meetings. For some of these countries (e.g., India, Pakistan, Sri Lanka), there are existing aid coordination mechanisms, and this may be a matter of simply accelerating the timing of the next meeting. For others, we will need to organize such mechanisms, if requested to do so by the country concerned. Whether to take on such a role will need to be evaluated on a case by case basis, taking account of the extent and quality of policy dialogue and economic performance. We will, of course, work closely with our IMF counterparts in this process.

13. If you agree with the overall thrust of these ideas, I would propose to include a general reference to them in the note for the Board and suggest that you discuss them in more detail with selected Directors between now and the Annual Meetings.

cc: Members of the President's Council

bcc: Messrs. Jaycox, Karaosmanoglu, Husain, Wapenhans, Kashiwaya

Messrs. Asanuma, Chopra, Kaji, Vergin, Wiehen

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: Tuesday, September 4, 1990

STRICTLY CONFIDENTIAL

TO: Messrs. Conable, Qureshi, Wapenhans

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: The Role of the Bank in the Gulf Crisis

I. Background

1. During my stay in Japan from August 28 to August 31, the Japanese Government (GOJ) sounded me out regarding the possibility of cofinancing to assist the Gulf-rim countries, especially Turkey, Egypt and Jordan (hereinafter called "frontline countries"). GOJ is trying to pursue the most effective measures to assist those countries affected by the embargo against Iraq. There have been different views within GOJ. One is to shortly announce bilateral assistance to these countries with specific figures, thus demonstrating to the world the strong support by GOJ. This has been supported by the Ministry of Foreign Affairs (MOFA) and many politicians. The other is to take full advantage of IFIs, with a view to achieving international coordination among donors, which was proposed by MOF and subsequently supported by the U.S. Treasury. In parallel with this decision-making, GOJ has closely discussed with the U.S., European donors and IFIs how to obtain multilateral cooperation to support the frontline countries. This issue will be discussed at the forthcoming G-7 Deputies' meeting on September 10-11. By that time GOJ hopes to decide its position in close coordination with the Bank, the IMF and the U.S. Government. The U.S. is scheduled to announce its own policy on these issues at the Annual Meetings. However, the U.S. is still considering various possible measures, and no consensus has been reached within its own Government. Mr. Utsumi, the Vice Minister, visited the U.S. Treasury, the Bank and the IMF last week while the Finance Minister Mr. Hashimoto visited major European donors.

2. The situation at the present time is fluid, but it is likely that many donors expect leadership from, or at least close coordination with IFIs in supporting the frontline countries and their neighbors. This may stem from two reasons. First, bilateral assistance should be consistent and coordinated. Secondly, it is politically imperative to achieve a strong link among donors, including Arab countries, in order to address the Gulf crisis (similar to the embargo endorsed by the U.N Security Council's decision). The reaction of IFIs and donors to MOF's approach differ at this stage, even within the same institution. It seems to me, however, that it is very important for the Bank to carefully follow the movements of major donors and pursue the right approach to this issue, with a view to maintaining the Bank's good relationships with donors as well as eligible countries in meeting the challenge created by the Gulf crisis. In this context, this memo summarizes the information I have been able to obtain regarding movements by donors, especially GOJ, which is expected to become one of the largest donors to these countries. For your information, it also contains what I learned about Mr. Utsumi's meeting with Mr. Conable from GOJ sources.

II. GOJ

3. On August 29 and August 30, GOJ announced that it would appropriate $1 billion equivalent in emergency assistance to the Gulf region countries to support their transportation, basic necessities and medical care activities. (It is said that Finance Minister Mr. Hashimoto exerted strong leadership to reach this consensus). In addition, GOJ will extend a substantial amount of assistance on concessionary terms to the Gulf region countries, especially Jordan, Turkey, and Egypt which face serious economic difficulties caused by the Gulf crisis. In parallel, GOJ will work with those IFIs concerned to support these countries. Without delay, GOJ will extend a $10 million grant to Jordan to support the refugees from Iraq and Kuwait.

III. Consultations between the U.S. and GOJ

4. On August 30 Mr. Utsumi talked with Messrs. Mulford and Dallara of the U.S. Treasury on assistance to these frontline countries, although the U.S. is still in the brainstorming stage and has as yet reached no conclusion.

(1) The U.S. Treasury was critical of the State Department's idea of creating an "Arab Fund" financed by Saudi Arabia, the Emirates and other donors because Saudi Arabia may not like such a fund.

(2) Mr. Utsumi suggested a case-by-case approach to the front line countries utilizing the coordinating role of IFIs. For example, in the case of Egypt, the G7 would press the IMF to create a Committee in which the Saudis and G7 would participate. In the case of Turkey, the Bank would form such a committee, in view of the less important role of the IMF in that country. The U.S. Treasury showed a strong interest in this proposal.

(3) The U.S. proposed to estimate the short-term (through end 1990) and middle-term (through 1991) financial needs of these front line countries. For the short-term needs, the donors need not necessarily stick to strict conditionality in view of the emergency. For medium-term needs, due consideration should be paid to conditionality. Mr. Utsumi suggested that the short-term needs should be restricted for refugees and other purposes, and in the case of medium-term needs, donors should take full advantage of IFIs to fill the balance of payments gap through their program or project financing. Mr. Dallara tentatively estimated the total financial needs of the three frontline countries as $9.1 billion, of which $2.8 billion is for short-term needs (to December 1990), and $6.3 billion for medium-term needs (1991). He expected that short-term assistance would consist of grant, concessionary loans and commodity aid in the form of bilateral aid. The medium-term assistance includes grant, concessionary loans and export credits possibly through multilateral approaches.

(4) Egypt: Mr. Utsumi is firmly opposed to the concept of the "Fund monitored Program" proposed by Mr. Camdessus in which the IMF will not contribute from its own resources, but would monitor the donors' contribution under the shadow program. Mr. Mulford sympathized with Mr. Utsumi's view, but did not wish to be quoted at this stage, pointing out that the IMF has difficulty in contributing new money to the borrower that falls short of IMF conditionalities. Mr. Utsumi suggested the Bank should consider the extraordinary nature of the situation, quoting the precedent case of the moderate conditionalities for Cote d'Ivoire. Mr. Dallara is supportive of using IFIs and suggested IMF's stand-by (e.g. 40% of quota) with moderate conditionality, an IDA credit from IBRD, and IMF's ESAF.

(5) Jordan: The U.S. has not decided what to do for Jordan at the moment.

(6) Mr. Dallara was impressed with the tough approach by the Bank and IMF towards Egypt and Turkey.

IV. Discussions between the Bank and GOJ

(1) Egypt: Mr. Conable told Mr. Utsumi that the slow pace of economic reform in Egypt, and the country's lack of cooperation with the IMF is a problem, although the Bank is more flexible in pursuing its reduction of the budget deficit than the IMF, which has insisted upon an increase in energy prices. Mr. Utsumi pointed out the unrealistic nature of the IMF's conditionality under the current situation, and said that GOJ is ready to provide an adequate cofinancing amount if the Bank comes through with its financing.

(2) Turkey: Mr. Utsumi understood that Mr. Conable has instructed that disbursements of the Bank's loans to Turkey be delayed due to non-compliance with the conditionalities. He is not satisfied with the current level of inflation (from 60% to 70%) and requires agreement with the IMF's program as a prerequisite to the Bank's lending. He also pointed out that Secretary of State Baker does not understand this and has never tried to influence the Turkish Government. He urged GOJ to persuade Turkey to comply with the IMF's program.

(3) Mr. Utsumi advocated a flexible approach under the current emergency situation. He expects strong leadership by Mr.

Conable in materializing IBRD lending, which would facilitate bilateral support through cofinancing. Mr. Conable, acknowledging the need for a flexible approach, asked Mr. Utsumi to persuade Mr. Camdessus, and the borrowers concerned to come to an agreement on some kind of support of the IMF program, whatever it may be.

V. Consultations between the IMF and GOJ

4. On August 30 Mr. Utsumi discussed Egypt with the Mr. Camdessus. Mr. Utsumi urged him to consider what the IMF can do for Egypt under the emergency situation. He asked the IMF to use its own resources like ESAF or stand-by, even if it amounts to only a symbolic sum, rather than only administering the donors' contribution under the shadow program. The Managing Director took a hard line on preserving the high standards of conditionality. He is said to have categorically rejected all attempts by the U.S. Germany and France to use the IMF's money. After examining the economic situation in Egypt he has reached the conclusion not to release any money now. He suggested that donors create a "Multilateral Assistance Fund" under the management of the IMF. Mr. Utsumi argued against Mr. Camdessus' position and suggested that the Bank should play a central role in aid coordination unless the IMF cooperates on Egypt, although he is worried about the discrepancies between the IMF and the Bank as was the case in Argentina. The Managing Director pointed out that Secretary of the Treasury, Mr. Brady, understood his position perfectly. The IMF cannot damage the conditionality and once the IMF gives way to Egypt, Germany may urge the IMF to finance Hungary, and the U.S.may urge financing for Peru, Ecuador, Trinidad and Tobago. Finally, Mr. Utsumi suggested the possibility of using IFIs other than the IMF for aid coordination for these countries.

5. On August 31 Mr. Camdessus informed the Japanese ED about his discussions with Mr. Brady to the effect that if Egypt takes appropriate economic action to facilitate the IMF's financing, he will make every effort to pursue the possibility of a back-loaded standby (SBA) or a CFF, if the conditions are met. Mr. Brady appreciated Mr. Camdessus' view. However, if Egypt's economic reforms do not meet the criteria of SBA or CCF, the IMF may consider the Fund Monitored Program proposed by Mr. Camdessus. In this case the economic policy must be sufficiciently tight to facilitate the $2.6 billion rescheduling of the Paris Club. Even if the G7 agrees with this scenario, the Paris Club cannot reach consensus without agreement of other donors. The IMF will send a small mission consisting of high-level staff on September 4 to consider the details of economic policy. Everything depends upon the substance of Egyptian economic policy.

6. Mr. Camdessus later informed the Japanese ED that the Egyptian Foreign Ministry conveyed to him the Prime Minister's decision that Egypt will fully comply with the economic adjustment program regardless of the Gulf crisis and make efforts towards agreement with the IMF. Although this is encouraging information, Mr. Camdessus wishes to watch the future developments of Egyptian economic policy.

VI. The Role of the Bank in the Gulf Crisis

7. It is essential for IFIs to preserve the conditionality of economic reform programs as their raison d'etre. IFIs, however, should be sufficiently flexible and practical to respond to borrowers' emergency situations. We should make our best efforts to avoid conflicts among IFIs in pursuing the economic adjustment policies of our borrowers. We should also consider the reasons why borrowers cannot comply with the IMF's program especially when it comes to domestic and political reasons. If major donors urge the Bank to coordinate aid or cofinancing we should consider this request very positively, even though the borrower finds it politically difficult to reach an agreement with the IMF (e.g. Turkey). If the IMF rejects financing due to the borrowers' non-compliance with their program, as in the case of Egypt, the Bank should make every effort to mediate them. If this is not possible, the Bank should consider coordinating the donors' contributions with its own lending, as long as the borrower complies with the Bank's program and is in need of such emergency assistance, and thus rescue the borrowers from real economic chaos.

KKashiwaya:jed

AK
SC (07R)
JWS

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/04 DUE DATE : 00/00/00
LOG NUMBER : 900905001 FROM : Koji Kashiwaya
SUBJECT : The Role of the Bank in the Gulf Crisis

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

(07R)

ACTION:

______	APPROVED
______	PLEASE HANDLE
✓	FOR YOUR INFORMATION
______	FOR YOUR REVIEW AND RECOMMENDATION
______	FOR THE FILES
______	PLEASE DISCUSS WITH ______
______	PLEASE PREPARE RESPONSE FOR ______ SIGNATURE
______	AS WE DISCUSSED
______	RETURN TO ______

COMMENTS :

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: Tuesday, September 4, 1990 **STRICTLY CONFIDENTIAL**

TO: Messrs. Conable, Qureshi, Wapenhans

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: **The Role of the Bank in the Gulf Crisis**

I. Background

1. During my stay in Japan from August 28 to August 31, the Japanese Government (GOJ) sounded me out regarding the possibility of cofinancing to assist the Gulf-rim countries, especially Turkey, Egypt and Jordan (hereinafter called "frontline countries"). GOJ is trying to pursue the most effective measures to assist those countries affected by the embargo against Iraq. There have been different views within GOJ. One is to shortly announce bilateral assistance to these countries with specific figures, thus demonstrating to the world the strong support by GOJ. This has been supported by the Ministry of Foreign Affairs (MOFA) and many politicians. The other is to take full advantage of IFIs, with a view to achieving international coordination among donors, which was proposed by MOF and subsequently supported by the U.S. Treasury. In parallel with this decision-making, GOJ has closely discussed with the U.S., European donors and IFIs how to obtain multilateral cooperation to support the frontline countries. This issue will be discussed at the forthcoming G-7 Deputies' meeting on September 10-11. By that time GOJ hopes to decide its position in close coordination with the Bank, the IMF and the U.S. Government. The U.S. is scheduled to announce its own policy on these issues at the Annual Meetings. However, the U.S. is still considering various possible measures, and no consensus has been reached within its own Government. Mr. Utsumi, the Vice Minister, visited the U.S. Treasury, the Bank and the IMF last week while the Finance Minister Mr. Hashimoto visited major European donors.

2. The situation at the present time is fluid, but it is likely that many donors expect leadership from, or at least close coordination with IFIs in supporting the frontline countries and their neighbors. This may stem from two reasons. First, bilateral assistance should be consistent and coordinated. Secondly, it is politically imperative to achieve a strong link among donors, including Arab countries, in order to address the Gulf crisis (similar to the embargo endorsed by the U.N Security Council's decision). The reaction of IFIs and donors to MOF's approach differ at this stage, even within the same institution. It seems to me, however, that it is very important for the Bank to carefully follow the movements of major donors and pursue the right approach to this issue, with a view to maintaining the Bank's good relationships with donors as well as eligible countries in meeting the challenge created by the Gulf crisis. In this context, this memo summarizes the information I have been able to obtain regarding movements by donors, especially GOJ, which is expected to become one of the largest donors to these countries. For your information, it also contains what I learned about Mr. Utsumi's meeting with Mr. Conable from GOJ sources.

II. GOJ

3. On August 29 and August 30, GOJ announced that it would appropriate $1 billion equivalent in emergency assistance to the Gulf region countries to support their transportation, basic necessities and medical care activities. (It is said that Finance Minister Mr. Hashimoto exerted strong leadership to reach this consensus). In addition, GOJ will extend a substantial amount of assistance on concessionary terms to the Gulf region countries, especially Jordan, Turkey, and Egypt which face serious economic difficulties caused by the Gulf crisis. In parallel, GOJ will work with those IFIs concerned to support these countries. Without delay, GOJ will extend a $10 million grant to Jordan to support the refugees from Iraq and Kuwait.

III. Consultations between the U.S. and GOJ

4. On August 30 Mr. Utsumi talked with Messrs. Mulford and Dallara of the U.S. Treasury on assistance to these frontline countries, although the U.S. is still in the brainstorming stage and has as yet reached no conclusion.

(1) The U.S. Treasury was critical of the State Department's idea of creating an "Arab Fund" financed by Saudi Arabia, the Emirates and other donors because Saudi Arabia may not like such a fund.

(2) Mr. Utsumi suggested a case-by-case approach to the front line countries utilizing the coordinating role of IFIs. For example, in the case of Egypt, the G7 would press the IMF to create a Committee in which the Saudis and G7 would participate. In the case of Turkey, the Bank would form such a committee, in view of the less important role of the IMF in that country. The U.S. Treasury showed a strong interest in this proposal.

(3) The U.S. proposed to estimate the short-term (through end 1990) and middle-term (through 1991) financial needs of these front line countries. For the short-term needs, the donors need not necessarily stick to strict conditionality in view of the emergency. For medium-term needs, due consideration should be paid to conditionality. Mr. Utsumi suggested that the short-term needs should be restricted for refugees and other purposes, and in the case of medium-term needs, donors should take full advantage of IFIs to fill the balance of payments gap through their program or project financing. Mr. Dallara tentatively estimated the total financial needs of the three frontline countries as $9.1 billion, of which $2.8 billion is for short-term needs (to December 1990), and $6.3 billion for medium-term needs (1991). He expected that short-term assistance would consist of grant, concessionary loans and commodity aid in the form of bilateral aid. The medium-term assistance includes grant, concessionary loans and export credits possibly through multilateral approaches.

(4) Egypt: Mr. Utsumi is firmly opposed to the concept of the "Fund monitored Program" proposed by Mr. Camdessus in which the IMF will not contribute from its own resources, but would monitor the donors' contribution under the shadow program. Mr. Mulford sympathized with Mr. Utsumi's view, but did not wish to be quoted at this stage, pointing out that the IMF has difficulty in contributing new money to the borrower that falls short of IMF conditionalities. Mr. Utsumi suggested the Bank should consider the extraordinary nature of the situation, quoting the precedent case of the moderate conditionalities for Cote d'Ivoire. Mr. Dallara is supportive of using IFIs and suggested IMF's stand-by (e.g. 40% of quota) with moderate conditionality, an IDA credit from IBRD, and IMF's ESAF.

(5) Jordan: The U.S. has not decided what to do for Jordan at the moment.

(6) Mr. Dallara was impressed with the tough approach by the Bank and IMF towards Egypt and Turkey.

IV. Discussions between the Bank and GOJ

(1) Egypt: Mr. Conable told Mr. Utsumi that the slow pace of economic reform in Egypt, and the country's lack of cooperation with the IMF is a problem, although the Bank is more flexible in pursuing its reduction of the budget deficit than the IMF, which has insisted upon an increase in energy prices. Mr. Utsumi pointed out the unrealistic nature of the IMF's conditionality under the current situation, and said that GOJ is ready to provide an adequate cofinancing amount if the Bank comes through with its financing.

(2) Turkey: Mr. Utsumi understood that Mr. Conable has instructed that disbursements of the Bank's loans to Turkey be delayed due to non-compliance with the conditionalities. He is not satisfied with the current level of inflation (from 60% to 70%) and requires agreement with the IMF's program as a prerequisite to the Bank's lending. He also pointed out that Secretary of State Baker does not understand this and has never tried to influence the Turkish Government. He urged GOJ to persuade Turkey to comply with the IMF's program.

(3) Mr. Utsumi advocated a flexible approach under the current emergency situation. He expects strong leadership by Mr.

Conable in materializing IBRD lending, which would facilitate bilateral support through cofinancing. Mr. Conable, acknowledging the need for a flexible approach, asked Mr. Utsumi to persuade Mr. Camdessus, and the borrowers concerned to come to an agreement on some kind of support of the IMF program, whatever it may be.

V. Consultations between the IMF and GOJ

4. On August 30 Mr. Utsumi discussed Egypt with the Mr. Camdessus. Mr. Utsumi urged him to consider what the IMF can do for Egypt under the emergency situation. He asked the IMF to use its own resources like ESAF or stand-by, even if it amounts to only a symbolic sum, rather than only administering the donors' contribution under the shadow program. The Managing Director took a hard line on preserving the high standards of conditionality. He is said to have categorically rejected all attempts by the U.S. Germany and France to use the IMF's money. After examining the economic situation in Egypt he has reached the conclusion not to release any money now. He suggested that donors create a "Multilateral Assistance Fund" under the management of the IMF. Mr. Utsumi argued against Mr. Camdessus' position and suggested that the Bank should play a central role in aid coordination unless the IMF cooperates on Egypt, although he is worried about the discrepancies between the IMF and the Bank as was the case in Argentina. The Managing Director pointed out that Secretary of the Treasury, Mr. Brady, understood his position perfectly. The IMF cannot damage the conditionality and once the IMF gives way to Egypt, Germany may urge the IMF to finance Hungary, and the U.S.may urge financing for Peru, Ecuador, Trinidad and Tobago. Finally, Mr. Utsumi suggested the possibility of using IFIs other than the IMF for aid coordination for these countries.

5. On August 31 Mr. Camdessus informed the Japanese ED about his discussions with Mr. Brady to the effect that if Egypt takes appropriate economic action to facilitate the IMF's financing, he will make every effort to pursue the possibility of a back-loaded standby (SBA) or a CFF, if the conditions are met. Mr. Brady appreciated Mr. Camdessus' view. However, if Egypt's economic reforms do not meet the criteria of SBA or CCF, the IMF may consider the Fund Monitored Program proposed by Mr. Camdessus. In this case the economic policy must be sufficiciently tight to facilitate the $2.6 billion rescheduling of the Paris Club. Even if the G7 agrees with this scenario, the Paris Club cannot reach consensus without agreement of other donors. The IMF will send a small mission consisting of high-level staff on September 4 to consider the details of economic policy. Everything depends upon the substance of Egyptian economic policy.

6. Mr. Camdessus later informed the Japanese ED that the Egyptian Foreign Ministry conveyed to him the Prime Minister's decision that Egypt will fully comply with the economic adjustment program regardless of the Gulf crisis and make efforts towards agreement with the IMF. Although this is encouraging information, Mr. Camdessus wishes to watch the future developments of Egyptian economic policy.

VI. The Role of the Bank in the Gulf Crisis

7. It is essential for IFIs to preserve the conditionality of economic reform programs as their raison d'etre. IFIs, however, should be sufficiently flexible and practical to respond to borrowers' emergency situations. We should make our best efforts to avoid conflicts among IFIs in pursuing the economic adjustment policies of our borrowers. We should also consider the reasons why borrowers cannot comply with the IMF's program especially when it comes to domestic and political reasons. If major donors urge the Bank to coordinate aid or cofinancing we should consider this request very positively, even though the borrower finds it politically difficult to reach an agreement with the IMF (e.g. Turkey). If the IMF rejects financing due to the borrowers' non-compliance with their program, as in the case of Egypt, the Bank should make every effort to mediate them. If this is not possible, the Bank should consider coordinating the donors' contributions with its own lending, as long as the borrower complies with the Bank's program and is in need of such emergency assistance, and thus rescue the borrowers from real economic chaos.

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INDIA

IMPACT OF THE MIDDLE EAST CRISIS

A SCENARIO

Executive Summary. Recent developments in the Middle East potentially will put severe additional pressure on India's already fragile budget and balance of payments. On the balance of payments front, import payments and receipts from exports (goods and services), remittances, amortization of debts owed to India, and nonresident deposits will be affected adversely. India's current account deficit, if steps were not taken to adjust, would average at least \$2.0 billion more per year under Scenario B during the first half of the 1990s than previously anticipated. It is doubtful that India could finance this additional amount. Under India's probable adjustment strategy, growth would have to cut by about 1% p.a. (from 4.5% to 3.5% p.a.) to maintain external borrowing within reasonable bounds. The current account deficit would exceed 3.5% of GDP in 1990/91 and 1991/92 (about 0.6% of GDP above the precrisis anticiapted level) as the private sector saving ratio falls to accomodate higher oil prices and the public sector deficit increases due to loss of oil pool revenues and increased expenditures associated with the crisis. The debt service ratio under the crisis scenario would remain under 30%, and would be slightly higher in the mid to late 1990s than the precrisis anticipated level.

Baseline: No crisis scenario

Revised 1989/90 BOP. Preliminary BOP data compiled by the Reserve Bank of India for 1989/90 indicate a somehat lower current account deficit in 1989/90 than had been forseen earlier. These data place the 1989/90 bop current acccount deficit at 2.4% of GDP, excluding interest paid on NRI deposits and short-term trade credit, down from 2.7% esimated provisionally for 1988/89 on this same basis. On the Bank's reporting basis, which includes these interest payments, the preliminary data suggest a revised current account deficit estimate of 3% of GDP, lower by 0.3%

Table 1
Revised Baseline Scenario[1]
(Millions of US $)

	CEM[2]	89/90	90/91	91/92	92/93	93/94	94/95
Exports GNS	21215	21194	23826	26980	30523	34429	38898
Imports GNS	28955	28677	30982	34179	37662	41827	46279
Resource Balance	- 7740	- 7483	- 7157	- 7200	- 7140	- 7398	- 7381
Net Factor Income	- 3622	- 3305	- 3736	- 4121	- 4531	- 4934	- 5404
Net Current Transfers	2720	2850	2921	2993	3067	3143	3221
Current Account	- 8642	- 7938	- 8328	- 8604	- 9189	- 9564	- 9603
Memo items:							
Current Account (% GDP)	- 3.3%	- 3.0%	- 2.8%	- 2.8%	- 2.7%	- 2.7%	- 2.7%
Debt Service Ratio (%)	27.3%	25.2%	24.4%	23.1%	24.7%	26.4%	27.7%
GDP @ factor cost growth(%)	4.6%	4.6%	4.5%	4.5%	4.5%	4.6%	4.6%
Public Sector Deficit (% GDP)	9.4%	9.4%	9.2%	8.6%	8.3%	8.0%	7.8%
Noncustoms imports	4410	4000	4256	4612	5000	5411	5860

of GDP than the 1990 CEM estimate. No data are available on the causes of this improvement, but it seems likely that noncustoms import payments have declined, and some invisibles items (remittances, balance on nonfactor services) may have been stronger than previously estimated. In the capital account, NRI deposit inflows slowed considerably during the closing months of 1989/90, resulting in somewhat lower than previously estimated inflows. The revised estimate of the 1989/90 outturn is subject to further revision based on the World Debt Tables update now in progress and the receipt of additional preliminary data from the RBI.

[1]See Annex B, Table 1 for full details.

[2]1990 CEM projection for 1989/90.

Revised baseline projection. A revised 1989/90 BOP estimate for 1989/90 is contained in Table 1, along with a revised projection from this new base. Several changes were made in constructing the revised projection. First, India's authorities appear to be willing to tolerate somewhat lower reserve levels (in terms of import coverage) than assumed in previous projections. Accordingly, import coverage targets have been decreased to a range of 1.6 to 1.8 months of imports. Second, a higher fraction of interest paid on NRI deposits is reinvested than was assumed in the 1990 CEM projections. Third, NRI net inflows have been adjusted downward in light of the 1989/90 experience. Fourth, import volume growth projected for 1990/91 has been revised downward based on Indian authorities' projections that the 1990/91 current account deficit (RBI definition) would have fallen to 2% of GDP absent the crisis. However, first quarter customs import figures suggest that, if this was to be achieved, customs import growth would have had to decline substantially during the year, or payments for noncustoms imports would have to decline again in 1990/91. Fifth, the rate of real effective depreciation of the rupee appears to have declined in 1990/91. However, the revised projections continue to assume, as did the CEM projections, a significant fiscal adjustment and continued "flexible management" (if slightly slower real effective depreciation) of the exchange rate.

India's Adjustment to the Crisis

Absent a clear indication of the extent and duration of the crisis, the GOI is proceeding cautiously and incrementally in adjusting its policies. Its strategy for 1990/91, as developed to date, is based on the assumption that crude oil prices will stabilize during 1990/91 at $25 per barrel, and will average somewhat less for the year (about $21.00/bbl) than is implied by PREs Scenario B.

Supply arrangements. India does not contemplate a "supply" adjustment of the sort undertaken in the early 1980s when domestic crude production was increased rapidly in response to the 1979/80 oil price shock. Domestic production of crude is expected to be only about 5mt/yr higher in 1994/95 than it is today.

Total imports of crude oil in 1990/91 are expected to be slightly more than 17 mt, and product net imports are put at about 7 mt. These are roughly the levels that had been anticipated prior to the onset of the crisis. Based on events to date, Indian authorities expect no interruption of supplies during 1990/91. The Indian Oil Corporation, the public sector enterprise responsible for India's imports of petroleum and petroleum products, has already made arrangements to cover the loss of supplies from Iraq and Kuwait.

Policy adjustments. Given the uncertainties about where the price will settle and the substantial increase of POL prices at the time of the 1990/91 budget, the authorities are reluctant to further adjust prices of petroleum and petroleum products at this time (see the last section of this note). To restrain petroleum imports and compensate for the loss of profits on imported oil, restrictions have been placed on the use of government vehicles, excise taxes have been increased, and depreciation rates allowed on vehicles have been reduced. The Government has also stated that it will mount a conservation campaign. On the export side, in addition to maintaining its export promotion thrust, what is described as a "one-off" export of surplus commodities is planned, including export of between 0.5-1.5 mt of wheat, 0.5 mt of nonbasmati rice, and an undisclosed quantity of iron ore. This effort is roughly estimated to yield an additional $400 million in export receipts. Finally, the Government is also soliciting additional bilateral credit to help finance its oil imports.

The authorities have stated that, if these adjustments are not sufficient, steps will be taken to "change the composition of the current account". Presumably, this means tightening restrictions on other imports to free up foreign exchange for oil imports while holding the overall current account deficit to manageable levels.

A Crisis Scenario

The crisis scenario envisions the following direct effects (some of which have not been costed) and adjustments, which are summarized in Table 2.

Table 2
Crisis Scenario Assumptions

	90/91	91/92	92/93	93/94	94/95
Crude oil price($ bbl)					
Baseline	16.30	18.00	19.38	20.65	22.00
Scenario B	26.80	27.68	24.02	20.08	20.30
POL imports (mmt)					
Crude	17.26	18.53	19.29	21.23	22.77
Products(net)	6.77	7.18	7.96	8.79	9.62
Exports (million $)	200	(200)	(200)	(200)	(200)
to Gulf	(200)	(200)	(200)	(200)	(200)
One off	400				
Remittances		(300)	(300)	(300)	(300)
fr Gulf	(300)	(300)	(300)	(300)	(300)
Safe haven	300				
NRI deposits	250				
fr Gulf	(125)	(125)	(125)	(125)	(125)
Safe haven	375				

Import prices. Crude oil prices are increased as per Scenario B, adjusted to an Indian fiscal year basis. No adjustment is made for possible manufactured fertilizer import price increases. Higher oil import costs are assumed to be absorbed by the Government to the extent of oil pool deposits (0.3% of GDP -- see Annex A) and thereafter by consumers.

Effects of higher prices on import quantities. None. Imports are assumed to be required in fixed proportion to real GDP. The oniy available adjustment mechanism is absorption and output reduction. This is clearly an extreme assumption. Higher relative prices would be expected to induce some substitution, moderating the decline in income and absorption needed to maintain a viable balance of payments and would, given that the public sector is a net seller of POL, strenghten the budget position as well.

Effects on exports. India's exports to Iraq and Kuwait in 1989/90 totalled about US $ 200 million. For projection purposes, it is assumed that exports remain $200 million below the baseline path throughout the projection period. No adjustment is made for potential lost contract service exports. A "one off" export of surplus foodgrains and iron ore in 1990/91 is assume to add $400 million to export receipts.

Effects on remittances. Rough estimates suggest that, in 1988/89, roughly $300 million in remittances were received from Indian nationals working in Iraq and Kuwait. The Indian authorities report an upsurge in remittances as Indian's working elsewhere in the Gulf increase their transfers, presumably in search of a safe haven. The projections presented here assume that this effect just offsets the disruption of flows in 1990/91. Thereafter, remittances fall below the baseline by $300 million.

NRI Deposits. Rough estimates suggest that in 1989/90, Iraq and Kuwait accounted for roughly $125 million in NRI deposit flows. Indian authorities reported a surge of deposit inflows ($400 million) in the two weeks immediately following the onset of the crisis, also presumably in search of a safe haven. The projections presented here assume that NRI deposits exceed baseline flows by $250 million in 1990/91, and thereafter fall below the baseline by $125 million.

Factor services. Scenario B envisions a near-term increase in libor, and a corresponding increase in interest payments on variable interest rate external debt. No provision is made for loss of interest income or repayments of principal on Iraqi obligations to India.

Fiscal effects. On the fiscal front, revenues from imports of oil and oil products will be squeezed to the extent that product prices are not increased, and expenditures will be increased to the extent they are. Outlays for fertilizer subsidies as world prices and domestic production costs increase, and potential outlays to assist the repatriation of Indians fleeing the Gulf region could also add to the fiscal deficit. It is assumed that the deterioration in fiscal deficit under the crisis scenario (relative to the baseline scenario) is held to 0.3% of GDP, roughly equivalent to precrisis anticipated oil pool deposits (Annex A).

The combined effect of these direct changes on India's current account balance, assuming no adjustment, would be to incrtease India's current account deficit and annual borrowing by an average of $ 2 billion over the early 1990s. While debt service and debt export ratios would still stabilize and begin to decline in the late 1990s provided that export growth is maintained, India probably should not, would not , and quite possibly could not finance an increased deficit of this size. Based on likelihood (given previous adjustment episodes and recent statements by authorities) that India's strategy would be to tighten import restrictions, the adjustment scenario assumes that growth is reduced to hold borrowing requirements during the early 1990s to baseline scenario levels. This requires a reduction in the average growth rate (GDP at factor cost) from 4.5% during 1990/91-94/95 under the baseline scenario to 3.5% per annum in the crisis scenario.

The main features of the adjustment scenario are summarized in Table 3. Each 1$ increase

Table 3[3]
Crisis Adjustment Scenario

	90/91	91/92	92/93	93/94	94/95
Exports GNS	24068	26690	30219	34111	38564
Imports GNS	32970	35814	37759	40090	43603
Resource Bal	- 8903	- 9124	- 7539	- 5979	- 5038
Net Factor Income	- 3739	- 4330	- 4845	- 5048	- 5290
Net Cur Trans	2921	2693	3766	2843	2920
Current Account	- 9721	-10760	- 9618	- 8184	- 7408
Memo items:					
Cur Acc (% GDP)	- 3.5%	- 3.7%	- 3.1%	- 2.5%	- 2.2%
Debt Ser Ratio (%)	24.2%	24.4%	26.1%	27.7%	28.1%
Debt/Exports(%)	257.2%	268.5%	265.4%	256.3%	243.6%
GDP @ fc (% pa)	3.4%	3.4%	3.6%	3.7%	3.7%
Public Def (% GDP)	9.5%	8.9%	8.6%	8.0%	7.8%
Noncustoms imports	4256	4612	5000	5411	5860

in the price of a barrel of oil increases merchandise import payments (on a customs basis, taking 1989/90 as a base) by about 0.1%. Factor service imports, which are "driven" in the projection by merchandise imports also increase. Roughly speaking, given an average income elasticity of import demand of about 1.0 used in our projections, an average reduction in GDP growth of approximately 0.1% is required per dollar increase in the price of oil to offset the effect of this price increase on the import bill. Thus, if oil prices tracked $3 above the Scenario B assumption, adjustment to hold down borrowing requirements would require that GDP growth fall further, to

[3]See Annex B, Table 3 for full details.

somewhere in the range of 3.0% to 3.2% p.a.

An essential element of this adjustment scenario is that export growth be maintained. There are grounds for concern that the adjustment strategy India may follow will not achieve this. To the extent that growth needs to be reduced, it is far better to approach the task via demand restraint. Tightening down on imports runs the risk of intensifying the import substitution bias of the economy. At a minimum, if import restrictions are tightened, additional exchange rate depreciation would be required to keep exportable prices from falling relative to importables prices, and steps would have to be taken to insure that exporters retain access to imported inputs.

PRICING OF PETROLEUM

The price of crude and prices of major petroleum products (generally those with sales of over 1 mt/yr) are set by the Government based on the recommendations of a review committee. The Government may adjust the committee's recommendations. In the past, such adjustments reportedly have been relatively small.

The committee's recommendations are based on a "cost-plus" calculation, taking into account prospective oil market developments. Its objective is to set prices that will hold for a period of three to four years. The base for these calculations is a "pooled" FOB price of crude, which is a weighted average of the expected FOB price of foreign and indigenous crudes. The price used for indigenous crude is supposed to be the "long-run, social marginal cost with any adjustments that may be thought necessary". Refinery retention prices are then built up refinery-by-refinery from this base, much as retention prices are calculated for fertilizer producers. Similar calculations are carried out for distribution and retailing.

To compensate producers for deviations in actual costs from those presumed in the pricing formulae, the Oil Coordinating Committee maintains a set of pool accounts into which extablishments facing relatively low costs pay and from which establishments facing relative high costs draw. The most important of these, from the standpoint of this exercise, is the Crude Oil Price Equalization (COPE) Account. Refiner's processing crude that costs less than the pool price pay into the pool, whereas those processing more expensive crude receive payments. At present (prior to the recent increase in prices), the pool price and indigenous price of crude appear to have been above the import price (awaiting confirmation from Delhi). The COPE account would thus have shown a surplus. The 1990/91 budget projected that Rs 14 billion (0.3% of GDP) of this surplus would be transferred to the Government.

Balance of Payments Projections
Millions of $US
Base Case Scenario
Table 1

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Exp. of Goods and Non-Factor Services	16215	18184	21194	23826	26980	30523	34429	38898	44022	49308	55270	61962
Exports of Goods	12644	14208	16850	19217	21927	24961	28279	32045	36337	40767	45754	51360
Exports of Goods (Custom)	12138	14010	16613	18955	21653	24674	27978	31730	36006	40422	45396	50988
Statistical Discrepancy	506	198	237	262	273	287	301	316	332	345	358	372
Non-factor Service Receipts	3571	3976	4344	4609	5053	5562	6150	6853	7685	8542	9516	10602
Imp. of Goods and Non-Factor Services	22839	27093	28677	30982	34179	37662	41827	46279	51079	56593	62796	70078
Imports of Goods	19812	23849	25200	27226	30036	33096	36756	40669	44887	49732	55183	61582
Imports of Goods (Custom)	17273	19464	21200	22975	25424	28097	31346	34808	38521	42874	47790	53620
Import Discrepancy	2539	4385	4000	4251	4612	5000	5411	5860	6366	6858	7393	7962
Non-factor Service Payments	3027	3244	3477	3756	4144	4566	5071	5611	6193	6861	7613	8496
Resource Balance	-6624	-8909	-7483	-7157	-7200	-7140	-7398	-7381	-7057	-7285	-7526	-8116
Net Factor Income	-2471	-2985	-3305	-3736	-4121	-4531	-4934	-5404	-5846	-6301	-6807	-7315
Factor service receipts	446	397	395	374	401	432	457	486	513	546	581	616
Factor Service Payments	2917	3382	3700	4110	4522	4963	5391	5890	6359	6848	7387	7931
Interest Payment (LT)	2181	2580	3016	3464	3908	4364	4797	5280	5723	6184	6694	7208
NRI accrued interest	692	920	955	1192	1358	1517	1659	1818	1976	2166	2361	2560
Short-Term Debt	250	287	355	367	383	400	411	427	443	465	487	509
IMF Charges	297	283	184	127	72	32	8	0	0	0	0	0
Other Factor Payments	189	282	145	152	159	167	175	183	192	199	206	214
Net Current Transfers	2698	2979	2850	2921	2993	3067	3143	3221	3300	3382	3466	3552
Receipts	2724	3005	2880	2952	3026	3101	3179	3258	3340	3423	3509	3597
Worker Remittances	2721	2850	2750	2819	2889	2961	3035	3111	3189	3269	3351	3434
Payments	26	26	30	31	33	35	36	38	40	41	43	44
Current Account Balance	-6397	-8915	-7938	-7972	-8328	-8604	-9189	-9564	-9603	-10204	-10867	-11878
Official Grant Aid	410	406	500	524	549	576	603	632	662	687	712	738
Net Long-Term Capital Inflows	5858	6812	7347	7867	8343	8509	8882	9122	9094	9675	10324	11333
Foreign Investment	181	287	425	460	526	596	662	732	808	895	993	1108
Net Flows (LT)	3872	4188	4932	5114	5510	5577	5815	5902	5719	6109	6554	7339
Disbursements (LT)	5915	6297	6696	7074	7702	8861	10503	11384	12293	13755	13819	15116
Principal Repayments (LT)	2043	2109	1764	1960	2192	3284	4689	5481	6574	7646	7266	7777
Other Long-Term Inflows (NRI)	1806	2337	1990	2293	2307	2336	2406	2487	2567	2671	2777	2886
NRI net inflow	1278	1688	1330	1520	1450	1400	1400	1400	1400	1400	1400	1400
NRI accrued interest	528	649	660	773	857	936	1006	1087	1167	1271	1377	1486
Net Credit From IMF	-1082	-1210	-1008	-683	-439	-309	-125	-11	0	0	0	0
IMF Purchases	0	0	0	0	0	0	0	0	0	0	0	0
IMF Repurchases	1082	1210	1008	683	439	309	125	11	0	0	0	0
Capital Flows Not Elsewhere Included	872	1475	250	262	274	287	301	316	331	343	356	369
Short-Term Debt	222	253	250	262	274	287	301	316	331	343	356	369
Other Capital Flows	1381	1222	0	0	0	0	0	0	0	0	0	0
Errors & omissions	-731	0	0	0	0	0	0	0	0	0	0	0
Change in Reserves	339	1432	850	2	-399	-459	-472	-494	-484	-502	-526	-563
End-Year Reserves	6391	4959	4109	4107	4505	4964	5437	5931	6415	6917	7443	8006

ANNEX B

INDIA
KEY ECONOMIC INDICATORS
Base Case Scenario
Table 1

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
---Real Growth Rates---												
GDP Growth Rate, mp	4.5%	9.6%	4.8%	4.5%	4.7%	4.7%	4.9%	4.8%	4.8%	5.0%	5.0%	5.1%
GDP Growth Rate, fc	4.1%	10.4%	4.6%	4.5%	4.5%	4.5%	4.6%	4.6%	4.6%	4.7%	4.7%	4.8%
Agriculture	0.5%	17.4%	1.8%	1.5%	1.5%	2.0%	2.2%	2.3%	2.3%	2.5%	2.5%	2.5%
Industry	5.5%	7.7%	5.9%	6.4%	6.4%	6.4%	6.4%	6.3%	6.3%	6.3%	6.3%	6.3%
Manufacture	6.0%	8.2%	5.0%	6.0%	7.0%	7.0%	7.0%	6.8%	6.8%	6.8%	6.8%	6.8%
Services	6.1%	6.9%	6.0%	5.7%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Export Growth Rate	8.1%	10.8%	13.9%	8.3%	8.7%	7.8%	7.5%	7.7%	7.8%	7.8%	7.9%	7.9%
Merchandise	10.2%	11.1%	15.9%	9.9%	9.5%	8.5%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Import Growth Rate	-1.5%	18.6%	1.5%	3.0%	5.8%	5.7%	6.7%	6.2%	5.7%	7.0%	7.0%	7.8%
Commerce	-5.9%	12.6%	4.5%	3.3%	6.1%	6.0%	7.2%	6.6%	5.9%	7.5%	7.5%	8.3%
Discrepancy	13.2%	72.6%	-12.5%	1.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Non-Factor Services	17.2%	7.1%	2.8%	3.0%	5.8%	5.7%	6.7%	6.2%	5.7%	7.0%	7.0%	7.8%
---Constant Price GDP Ratios---												
Public Consumption	11.7%	11.2%	12.1%	12.0%	11.7%	11.4%	11.2%	10.9%	10.8%	10.7%	10.7%	10.7%
Private Consumption	70.9%	71.1%	70.8%	70.7%	70.5%	70.5%	70.6%	70.7%	70.7%	70.7%	70.8%	70.8%
Gross Investment	21.1%	22.2%	20.7%	20.5%	20.9%	21.0%	21.2%	21.3%	21.3%	21.3%	21.2%	21.3%
Domestic Savings	18.2%	18.6%	18.0%	18.2%	18.7%	19.0%	19.3%	19.6%	19.8%	19.9%	19.9%	19.9%
National Savings	18.3%	18.6%	17.8%	17.9%	18.3%	18.6%	18.8%	19.1%	19.2%	19.3%	19.3%	19.3%
Marginal National Savings Rate	7.5%	22.6%	1.3%	19.7%	28.0%	25.1%	23.0%	24.9%	22.5%	21.2%	19.1%	19.8%
Gross Domestic Investment	21.1%	22.2%	20.7%	20.5%	20.9%	21.0%	21.2%	21.3%	21.3%	21.3%	21.2%	21.3%
Public Investment -1/	9.8%		9.0%	8.9%	8.8%	8.8%	8.9%	9.1%	9.0%	9.1%	9.1%	9.2%
Private Investment	11.3%	22.2%	11.7%	11.6%	12.1%	12.2%	12.2%	12.2%	12.2%	12.2%	12.1%	12.1%
Ratio of Public/Private Invest.	86.4%		77.5%	76.4%	72.3%	72.1%	72.8%	74.1%	74.0%	74.8%	75.5%	75.8%
ICOR _2/	4.2	3.7	3.7	3.9	3.8	3.8	4.4	4.4	4.4	4.3	4.3	4.3
Exports	6.2%	6.2%	6.8%	7.0%	7.3%	7.5%	7.7%	7.9%	8.1%	8.3%	8.6%	8.8%
Imports	9.9%	10.7%	10.4%	10.2%	10.3%	10.4%	10.6%	10.8%	10.9%	11.1%	11.3%	11.6%
---Current Ratios to GDP---												
Gross Investment	22.9%	24.4%	22.9%	22.8%	23.2%	23.4%	23.7%	23.9%	23.9%	24.0%	24.0%	24.1%
Domestic Savings	20.3%	21.1%	20.1%	20.2%	20.8%	21.2%	21.4%	21.8%	22.0%	22.2%	22.2%	22.3%
National Savings	20.4%	21.1%	20.0%	19.9%	20.4%	20.7%	20.9%	21.2%	21.4%	21.5%	21.5%	21.5%
Marginal National Savings Rate	10.9%	25.4%	11.7%	20.1%	24.6%	23.7%	23.0%	24.2%	23.3%	22.8%	21.7%	22.0%
Exports	6.3%	6.7%	8.0%	8.5%	9.0%	9.6%	10.3%	10.8%	11.4%	12.1%	12.7%	13.4%
Imports	8.9%	10.0%	10.8%	11.0%	11.4%	11.9%	12.5%	12.9%	13.3%	13.8%	14.5%	15.2%

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	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
--Saving-Investment Balances - GDP Ratios--												
Foreign Saving	2.5%	3.3%	3.0%	2.8%	2.8%	2.7%	2.7%	2.7%	2.5%	2.5%	2.5%	2.6%
Resource Gap	2.6%	3.3%	2.8%	2.5%	2.4%	2.3%	2.2%	2.1%	1.8%	1.8%	1.7%	1.8%
Net Factor Income	1.0%	1.1%	1.2%	1.3%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%
Net Current Transfers	-1.1%	-1.1%	-1.1%	-1.0%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%	-0.8%	-0.8%	-0.8%
Private Sector												
Gross Domestic Investment	12.2%	13.9%	12.9%	12.9%	13.5%	13.6%	13.7%	13.7%	13.7%	13.8%	13.7%	13.7%
Private Saving	18.3%	19.5%	19.4%	19.3%	19.3%	19.2%	18.9%	18.9%	18.8%	18.7%	18.4%	18.1%
Investment-Saving gap	-6.1%	-5.6%	-6.5%	-6.4%	-5.8%	-5.6%	-5.3%	-5.1%	-5.1%	-4.9%	-4.7%	-4.4%
Public Sector 1/												
Gross Domestic Investment	10.7%	10.5%	10.0%	9.9%	9.7%	9.8%	10.0%	10.2%	10.2%	10.2%	10.3%	10.4%
Public Sector Saving	2.1%	1.6%	0.6%	0.7%	1.1%	1.5%	2.0%	2.4%	2.6%	2.8%	3.1%	3.4%
Current Income	24.1%	23.4%	23.7%	24.0%	24.3%	24.5%	24.7%	24.9%	25.1%	25.3%	25.6%	25.9%
Tax Revenue	17.4%	16.9%	16.9%	17.1%	17.3%	17.5%	17.7%	17.9%	18.0%	18.3%	18.5%	18.8%
Direct	2.4%	2.4%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%
Indirect	15.0%	14.5%	14.4%	14.6%	14.7%	14.9%	15.1%	15.3%	15.4%	15.6%	15.9%	16.1%
Public Enterprise Surplus	5.6%	5.4%	5.5%	5.7%	5.7%	5.7%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Interest Receipts	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Misc. Receipts	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Current Expenditure	22.0%	21.8%	23.1%	23.4%	23.1%	23.0%	22.8%	22.5%	22.5%	22.5%	22.5%	22.5%
Consumption	12.3%	11.9%	12.8%	12.7%	12.4%	12.1%	11.8%	11.5%	11.4%	11.3%	11.3%	11.3%
Subsidies	3.6%	3.6%	3.4%	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Payments	2.8%	3.1%	3.5%	3.8%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.6%
Current Transfers	3.3%	3.2%	3.4%	3.3%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.1%	3.1%
Investment-Saving Gap	8.6%	8.9%	9.4%	9.2%	8.6%	8.3%	8.0%	7.8%	7.6%	7.4%	7.2%	7.0%
--Private Sector Capital Account - GDP Ratios--												
Investment-Saving Gap	-6.1%	-5.6%	-6.5%	-6.4%	-5.8%	-5.6%	-5.3%	-5.1%	-5.1%	-4.9%	-4.7%	-4.4%
Private Sector Net Aquisition of Assets	-13.3%	-15.8%	-14.0%	-13.4%	-13.5%	-13.1%	-13.1%	-13.0%	-12.6%	-12.7%	-12.3%	-12.2%
Lending to Public Sector	-6.7%	-7.1%	-7.9%	-7.9%	-7.7%	-7.5%	-7.7%	-7.8%	-7.6%	-7.5%	-7.4%	-7.2%
Money	-6.3%	-8.7%	-5.5%	-5.2%	-5.2%	-5.1%	-5.1%	-4.8%	-4.6%	-4.7%	-4.7%	-4.8%
Other	-0.3%	0.1%	-0.7%	-0.3%	-0.6%	-0.4%	-0.3%	-0.4%	-0.3%	-0.5%	-0.2%	-0.2%
Private Sector Borrowing	7.2%	10.2%	7.6%	7.0%	7.7%	7.5%	7.8%	7.9%	7.5%	7.8%	7.6%	7.8%
Foreign Borrowing	0.4%	0.9%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Domestic Credit	3.8%	6.4%	4.5%	3.8%	4.6%	4.4%	4.8%	4.9%	4.6%	4.9%	4.7%	4.9%
Bor. from Public Sector	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%

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INDIA
KEY ECONOMIC INDICATORS
Base Case Scenario
Table 1

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
--Public Sector Capital Account - GDP Ratios--												
Fiscal Deficit	8.6%	8.9%	9.4%	9.2%	8.6%	8.3%	8.0%	7.8%	7.6%	7.4%	7.2%	7.0%
Curr. off'l grants, foreign to govt.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Fiscal Deficit (after off. grants)	8.4%	8.7%	9.2%	9.0%	8.4%	8.1%	7.8%	7.6%	7.4%	7.2%	7.0%	6.8%
Net Lending, Public to Pr. Sect. 3/	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%
Overall Pub. S. Def. after off. Gr. _5/	11.4%	11.6%	12.1%	11.9%	11.3%	11.0%	10.7%	10.5%	10.3%	10.1%	9.9%	9.7%
Net Bnkg Sys. Lend. (Borr.fr.BS)	3.7%	3.3%	2.8%	2.8%	2.2%	2.2%	1.8%	1.6%	1.6%	1.6%	1.5%	1.3%
Net Dom. Debt (Bonds to PR/Borr.fr PR)	6.7%	7.1%	7.9%	7.9%	7.7%	7.5%	7.7%	7.8%	7.6%	7.5%	7.4%	7.2%
Net For. Debt (Borr.fr.External Sect.)	1.4%	1.6%	1.8%	1.6%	1.7%	1.6%	1.6%	1.6%	1.4%	1.4%	1.5%	1.6%
---Prices----												
Nominal Exchange Rate Ind. (1980/81=100)	164	183	211	224	237	251	267	278	288	302	316	331
Nominal Exchange Rate Depreciation	1.4%	11.6%	15.1%	6.0%	6.0%	6.0%	6.0%	4.2%	3.6%	4.8%	4.8%	4.8%
Real Exchange Rate Index (1980/81=100)	115.6	129.5	136.3	140.8	145.7	150.9	156.7	160.7	164.7	168.9	173.2	177.5
Real Exchange Rate Index Change	4.4%	12.1%	5.2%	3.3%	3.4%	3.6%	3.8%	2.5%	2.5%	2.5%	2.5%	2.5%
Domestic Inflation	8.4%	7.3%	8.0%	7.5%	7.4%	7.2%	7.0%	6.5%	6.0%	6.0%	6.0%	6.0%
Stock of Broad Money/GDP	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
---External Debt Indicators----												
Total DOD (mill. US$) _6/	55325	57336	63340	68367	75651	83177	91315	99852	108286	117194	126654	137012
DOD/Exports Goods & Serv. (incl. WR)	285.4%	267.5%	260.2%	253.0%	249.9%	245.2%	240.8%	235.0%	226.9%	220.6%	213.9%	207.6%
DOD/GDP	21.6%	21.2%	23.8%	24.3%	25.3%	26.3%	27.2%	27.8%	28.1%	28.7%	29.2%	29.7%
Debt Service (mill. US$)	5762	6389	6127	6601	6995	8389	10029	11200	12741	14295	14446	15494
Debt Service/Exp. G.& Serv. (incl. WR)	29.7%	29.8%	25.2%	24.4%	23.1%	24.7%	26.4%	26.4%	26.7%	26.9%	24.4%	23.5%
Debt Service/GDP	2.2%	2.4%	2.3%	2.3%	2.3%	2.6%	3.0%	3.1%	3.3%	3.5%	3.3%	3.4%
Interest/Exp. G.& Serv. (incl. WR)	14.1%	14.5%	14.6%	14.6%	14.4%	14.1%	13.8%	13.4%	12.9%	12.5%	12.1%	11.7%
Interest/GDP	1.1%	1.1%	1.3%	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	1.7%	1.7%
Current Account Deficit (mill. US$)	-6397.1	-8915.0	-7937.8	-7972.3	-8328.1	-8604.0	-9189.2	-9564.5	-9602.8	-10203.6	-10866.6	-11877.9
Current Account Deficit/GDP	-2.5%	-3.3%	-3.0%	-2.8%	-2.8%	-2.7%	-2.7%	-2.7%	-2.5%	-2.5%	-2.5%	-2.6%
Terms of Trade Index	114	115	113	112	112	113	114	115	115	115	116	116
---Foreign Exchange Reserves---												
International Reserves (mill. US$)	6391	4959	4109	4107	4505	4964	5437	5931	6415	6917	7443	8006
Reserves in Months of Imports of GS	3.9	2.5	2.0	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6
memo:												
Import Statistical Discrepancy (nominal)	2539.0	4385.0	4000.0	4251.2	4612.0	4999.3	5410.6	5860.2	6366.2	6857.7	7392.8	7961.8
Import Statistical Discrepancy (real)	2719.0	4694.1	4106.3	4160.0	4326.4	4499.5	4679.4	4866.6	5061.3	5263.7	5474.3	5693.2

_1/ General government and the public enterprises
_2/ Five-year average, one year lag.
_3/ Current and investment expenditures
_4/ National Accounts definition
_5/ Includes public lending to private sector
_6/ Debt outstanding and disbursed.

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Balance of Payments Projections
Millions of $US
Oil Shock: "Siege Scenario"
Table 3

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Exp. of Goods and Non-Factor Services	16215	18184	21194	24068	26690	30219	34111	38564	43671	48944	54891	61569
Exports of Goods	12644	14208	16850	19446	21688	24711	28017	31770	36048	40466	45441	51035
Exports of Goods (Custom)	12138	14010	16613	18955	21653	24674	27978	31730	36006	40422	45396	50988
Statistical Discrepancy	506	198	237	491	35	36	38	40	42	44	45	47
Non-factor Service Receipts	3571	3976	4344	4622	5002	5509	6094	6795	7624	8478	9450	10534
Imp. of Goods and Non-Factor Services	22839	27093	28677	32929	35768	37708	40036	43544	48247	53437	59279	66153
Imports of Goods	19812	23849	25200	28937	31432	33137	35182	38265	42398	46958	52092	58133
Imports of Goods (Custom)	17273	19464	21200	24686	26820	28137	29772	32405	35952	40025	44628	50107
Import Discrepancy	2539	4385	4000	4251	4612	5000	5411	5860	6446	6934	7464	8026
Non-factor Service Payments	3027	3244	3477	3992	4336	4572	4854	5279	5849	6478	7187	8020
Resource Balance	-6624	-8909	-7483	-8861	-9077	-7489	-5925	-4980	-4576	-4492	-4388	-4585
Net Factor Income	-2471	-2985	-3305	-3740	-4325	-4837	-5038	-5278	-5593	-5819	-6060	-6294
Factor service receipts	446	397	395	357	458	403	312	307	358	381	404	431
Factor Service Payments	2917	3382	3700	4096	4784	5240	5351	5585	5950	6200	6464	6725
Interest Payment (LT)	2181	2580	3016	3467	4122	4669	4874	5115	5431	5658	5899	6134
NRI accrued interest	692	920	955	1205	1378	1525	1655	1803	1954	2144	2338	2536
Short-Term Debt	250	287	355	351	431	372	294	287	327	343	359	377
IMF Charges	297	233	184	127	72	32	8	0	0	0	0	0
Other Factor Payments	189	282	145	152	159	167	175	183	192	199	206	214
Net Current Transfers	2698	2979	2850	2921	2693	2766	2843	2920	3200	3382	3466	3552
Receipts	2724	3005	2880	2952	2726	2801	2879	2958	3240	3424	3509	3597
Worker Remittances	2721	2850	2750	2819	2589	2661	2735	2811	3189	3307	3429	3556
Payments	26	26	30	31	33	35	36	38	40	41	43	44
Current Account Balance	-6397	-8915	-7938	-9680	-10710	-9560	-8121	-7338	-6868	-6930	-6982	-7326
Official Grant Aid	410	406	500	524	549	575	603	632	662	687	712	738
Net Long-Term Capital Inflows	5858	6812	7347	9568	10810	9393	7575	6777	6354	6371	6408	6750
Foreign Investment	181	287	425	489	550	596	633	689	763	845	938	1046
Net Flows (LT)	3872	4188	4932	6529	8068	6582	4663	3734	3034	2866	2705	2830
Disbursements (LT)	5915	6297	6696	8489	10260	9865	9634	10010	10604	11334	10518	10533
Principal Repayments (LT)	2043	2109	1764	1960	2192	3284	4972	6276	7570	8468	7813	7704
Other Long-Term Inflows (NRI)	1806	2337	1990	2549	2192	2215	2279	2354	2556	2660	2766	2874
NRI net inflow	1278	1688	1330	1770	1325	1275	1275	1275	1400	1400	1400	1400
NRI accrued interest	528	649	660	779	867	940	1004	1079	1156	1260	1366	1474
Net Credit From IMF	-1082	-1210	-1008	-683	-439	-309	-125	-11	0	0	0	0
IMF Purchases	0	0	0	0	0	0	0	0	0	0	0	0
IMF Repurchases	1082	1210	1008	683	439	309	125	11	0	0	0	0
Capital Flows Not Elsewhere Included	872	1475	250	262	274	287	301	316	331	348	356	369
Short-Term Debt	222	253	250	262	274	287	301	316	331	348	356	369
Other Capital Flows	1381	1222	0	0	0	0	0	0	0	0	0	0
Errors & omissions	-731	0	0	0	0	0	0	0	0	0	0	0
Change in Reserves	339	1432	850	10	-484	-387	-234	-376	-479	-472	-495	-531
End-Year Reserves	6391	4959	4109	4099	4584	4971	5204	5580	6059	6531	7026	7557

INDIA
KEY ECONOMIC INDICATORS
Oil Shock: "Siege Scenario"
Table 3

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
---Real Growth Rates---												
GDP Growth Rate, mp	4.5%	9.6%	3.8%	3.7%	3.6%	3.6%	3.7%	3.8%	4.8%	4.9%	5.0%	5.1%
GDP Growth Rate, fc	4.1%	10.4%	3.5%	3.4%	3.4%	3.6%	3.6%	3.7%	4.6%	4.7%	4.7%	4.7%
Agriculture	0.5%	17.4%	1.8%	1.5%	1.5%	2.0%	2.2%	2.3%	2.3%	2.5%	2.5%	2.5%
Industry	5.5%	7.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	6.3%	6.3%	6.3%	6.3%
Manufacture	6.0%	8.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.8%	6.8%	6.8%	6.8%
Services	6.1%	6.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%
Export Growth Rate	8.1%	10.8%	13.9%	9.4%	6.4%	7.9%	7.6%	7.7%	7.8%	7.9%	7.9%	8.0%
Merchandise	10.2%	11.1%	15.9%	11.2%	7.0%	8.6%	8.1%	8.1%	8.0%	8.0%	8.1%	8.1%
Import Growth Rate	-1.5%	18.6%	1.5%	1.1%	4.1%	4.3%	5.5%	5.0%	5.7%	7.1%	7.2%	7.9%
Commerce	-5.9%	12.6%	4.5%	1.1%	4.2%	4.4%	5.8%	5.2%	6.0%	7.6%	7.7%	8.6%
Discrepancy	18.2%	72.6%	-12.5%	1.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Non-Factor Services	17.2%	7.1%	2.8%	1.1%	4.1%	4.3%	5.5%	5.0%	5.7%	7.1%	7.2%	7.9%
---Constant Price GDP Ratios---												
Public Consumption	11.7%	11.2%	12.1%	12.0%	11.7%	11.4%	11.2%	10.9%	10.8%	10.7%	10.7%	10.7%
Private Consumption	70.9%	71.1%	70.6%	70.8%	70.7%	70.5%	70.2%	70.1%	70.1%	70.2%	70.2%	70.3%
Gross Investment	21.1%	22.2%	20.9%	20.2%	20.5%	20.7%	21.2%	21.3%	21.3%	21.3%	21.3%	21.3%
Domestic Savings	18.2%	18.6%	18.2%	17.4%	17.9%	18.6%	19.6%	20.1%	20.3%	20.4%	20.4%	20.5%
National Savings	18.3%	18.6%	18.0%	17.1%	17.4%	18.0%	19.0%	19.5%	19.8%	19.9%	19.9%	20.0%
Marginal National Savings Rate	7.5%	22.6%	1.6%	-6.4%	25.4%	37.5%	45.7%	32.9%	24.5%	22.9%	20.8%	21.3%
Gross Domestic Investment	21.1%	22.2%	20.9%	20.2%	20.5%	20.7%	21.2%	21.3%	21.3%	21.3%	21.3%	21.3%
Public Investment -1/	9.8%		9.1%	8.8%	8.5%	8.3%	8.7%	8.8%	8.8%	8.9%	9.0%	9.0%
Private Investment	11.3%	22.2%	11.8%	11.4%	12.0%	12.3%	12.5%	12.5%	12.5%	12.4%	12.3%	12.2%
Ratio of Public/Private Invest.	86.4%		76.6%	76.8%	70.3%	67.5%	69.8%	70.5%	70.6%	71.4%	73.0%	73.7%
ICOR _2/	4.2	3.7	3.8	4.2	4.3	4.4	5.7	5.6	5.3	5.0	4.7	4.5
Exports	6.2%	6.2%	6.9%	7.2%	7.4%	7.7%	8.0%	8.3%	8.6%	8.8%	9.0%	9.3%
Imports	9.9%	10.7%	10.5%	10.2%	10.3%	10.4%	10.5%	10.7%	10.8%	11.0%	11.2%	11.5%
---Current Ratios to GDP---												
Gross Investment	22.9%	24.4%	23.2%	22.3%	22.8%	23.0%	23.7%	23.9%	23.9%	24.0%	24.0%	24.1%
Domestic Savings	20.3%	21.1%	20.3%	19.1%	19.6%	20.6%	21.8%	22.4%	22.6%	22.8%	22.9%	23.0%
National Savings	20.4%	21.1%	20.2%	18.8%	19.1%	19.9%	21.1%	21.7%	22.0%	22.2%	22.3%	22.4%
Marginal National Savings Rate	10.9%	25.4%	12.8%	7.5%	21.8%	28.1%	32.6%	27.9%	24.8%	24.3%	23.3%	23.6%
Exports	6.3%	6.7%	8.1%	8.7%	9.2%	9.9%	10.7%	11.4%	12.0%	12.7%	13.4%	14.2%
Imports	8.9%	10.0%	10.9%	11.9%	12.3%	12.4%	12.6%	12.9%	13.3%	13.9%	14.5%	15.2%

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	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
--Saving-Investment Balances - GDP Ratios--												
Foreign Saving	2.5%	3.3%	3.0%	3.5%	3.7%	3.1%	2.5%	2.2%	1.9%	1.8%	1.7%	1.7%
Resource Gap	2.6%	3.3%	2.8%	3.2%	3.1%	2.5%	1.9%	1.5%	1.3%	1.2%	1.1%	1.1%
Net Factor Income	1.0%	1.1%	1.3%	1.4%	1.5%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%
Net Current Transfers	-1.1%	-1.1%	-1.1%	-1.1%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.8%	-0.8%
Private Sector												
Gross Domestic Investment	12.2%	13.9%	13.1%	12.6%	13.4%	13.8%	13.9%	14.0%	14.0%	14.0%	13.9%	13.9%
Private Saving	18.3%	19.5%	19.6%	18.6%	18.6%	19.2%	19.4%	19.6%	19.7%	19.6%	19.4%	19.2%
Investment-Saving gap	-6.1%	-5.6%	-6.5%	-6.0%	-5.2%	-5.5%	-5.5%	-5.6%	-5.7%	-5.6%	-5.5%	-5.3%
Public Sector 1/												
Gross Domestic Investment	10.7%	10.5%	10.0%	9.7%	9.4%	9.3%	9.7%	9.9%	9.9%	10.0%	10.1%	10.2%
Public Sector Saving	2.1%	1.6%	0.6%	0.2%	0.5%	0.7%	1.7%	2.1%	2.3%	2.6%	2.9%	3.2%
Current Income	24.1%	23.4%	23.7%	23.6%	23.8%	23.8%	24.5%	24.7%	24.9%	25.1%	25.4%	25.7%
Tax Revenue	17.4%	16.9%	16.9%	17.4%	17.6%	17.6%	17.6%	17.8%	17.9%	18.2%	18.4%	18.7%
Direct	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%
Indirect	15.0%	14.5%	14.4%	14.9%	15.0%	15.1%	15.1%	15.2%	15.4%	15.6%	15.8%	16.1%
Public Enterprise Surplus	5.6%	5.4%	5.5%	5.3%	5.4%	5.4%	5.6%	5.6%	5.7%	5.7%	5.7%	5.7%
Interest Receipts	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Misc. Receipts	0.4%	0.4%	0.5%	0.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Current Expenditure	22.0%	21.8%	23.0%	23.4%	23.3%	23.1%	22.8%	22.6%	22.6%	22.5%	22.4%	22.4%
Consumption	12.3%	11.9%	12.8%	12.7%	12.4%	12.1%	11.8%	11.5%	11.4%	11.3%	11.3%	11.3%
Subsidies	3.6%	3.6%	3.3%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Payments	2.8%	3.1%	3.5%	3.8%	4.2%	4.3%	4.3%	4.4%	4.5%	4.5%	4.6%	4.6%
Current Transfers	3.3%	3.2%	3.4%	3.3%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.1%	3.1%
Investment-Saving Gap	8.6%	8.9%	9.4%	9.5%	8.9%	8.6%	8.0%	7.8%	7.6%	7.4%	7.2%	7.0%
--Private Sector Capital Account - GDP Ratios--												
Investment-Saving Gap	-6.1%	-5.6%	-6.5%	-6.0%	-5.2%	-5.5%	-5.5%	-5.6%	-5.7%	-5.6%	-5.5%	-5.3%
Private Sector Net Aquisition of Assets	-13.3%	-15.8%	-13.5%	-13.0%	-13.1%	-12.7%	-12.4%	-12.5%	-12.5%	-12.7%	-12.2%	-12.1%
Lending to Public Sector	-6.7%	-7.1%	-7.9%	-8.1%	-7.9%	-7.7%	-7.7%	-7.8%	-7.6%	-7.5%	-7.4%	-7.2%
Money	-6.3%	-8.7%	-5.1%	-4.8%	-4.7%	-4.6%	-4.6%	-4.4%	-4.6%	-4.7%	-4.7%	-4.7%
Other	-0.3%	0.1%	-0.6%	-0.1%	-0.5%	-0.3%	-0.2%	-0.3%	-0.3%	-0.5%	-0.1%	-0.1%
Private Sector Borrowing	7.2%	10.2%	7.1%	7.0%	7.9%	7.2%	7.0%	6.8%	6.8%	7.1%	6.7%	6.8%
Foreign Borrowing	0.4%	0.9%	0.3%	0.3%	0.3%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Domestic Credit	3.8%	6.4%	4.0%	3.8%	4.8%	4.1%	4.0%	3.9%	3.9%	4.2%	3.8%	3.9%
Bor. from Public Sector	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%

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	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
--Public Sector Capital Account - GDP Ratios--												
Fiscal Deficit	8.6%	8.9%	9.4%	9.5%	8.9%	8.6%	8.0%	7.8%	7.6%	7.4%	7.2%	7.0%
Curr. off'l grants, foreign to govt.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Fiscal Deficit (after off. grants)	8.4%	8.7%	9.2%	9.3%	8.7%	8.4%	7.8%	7.6%	7.4%	7.2%	7.0%	6.8%
Net Lending, Public to Pr. Sect. 3/	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%
Overall Pub. S. Def. after off. Gr. _5/	11.4%	11.6%	12.1%	12.2%	11.6%	11.3%	10.7%	10.5%	10.3%	10.1%	9.9%	9.7%
Net Bnkg Sys. Lend. (Borr.fr.BS)	3.7%	3.3%	2.8%	2.3%	1.4%	1.9%	2.1%	2.1%	2.3%	2.3%	2.3%	2.3%
Net Dom. Debt (Bonds to PR/Borr.fr PR)	6.7%	7.1%	7.9%	8.1%	7.9%	7.7%	7.7%	7.8%	7.6%	7.5%	7.4%	7.2%
Net For. Debt (Borr.fr.External Sect.)	1.4%	1.6%	1.8%	2.2%	2.6%	2.0%	1.3%	1.0%	0.8%	0.7%	0.6%	0.6%
---Prices----												
Nominal Exchange Rate Ind. (1980/81=100)	164	183	211	224	237	251	267	278	288	302	316	331
Nominal Exchange Rate Depreciation	1.4%	11.6%	15.1%	6.0%	6.0%	6.0%	6.0%	4.2%	3.6%	4.8%	4.8%	4.8%
Real Exchange Rate Index (1980/81=100)	115.6	129.5	136.3	140.8	145.7	150.9	156.7	160.7	164.7	168.9	173.2	177.5
Real Exchange Rate Index Change	4.4%	12.1%	5.2%	3.3%	3.4%	3.6%	3.8%	2.5%	2.5%	2.5%	2.5%	2.5%
Domestic Inflation	8.4%	7.3%	8.0%	7.5%	7.4%	7.2%	7.0%	6.5%	6.0%	6.0%	6.0%	6.0%
Stock of Broad Money/GDP	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
---External Debt Indicators----												
Total DOD (mill. US$) _6/	55325	57336	63340	70038	79765	88175	95033	101269	107008	112661	118262	124098
DOD/Exports Goods & Serv. (incl. WR)	285.4%	267.5%	260.2%	257.1%	268.2%	264.9%	255.8%	243.0%	226.6%	214.1%	201.4%	189.3%
DOD/GDP	21.6%	21.2%	24.1%	25.3%	27.5%	29.0%	29.8%	29.9%	29.5%	29.3%	29.0%	28.6%
Debt Service (mill. US$)	5762	6389	6127	6587	7256	8666	10272	11689	13328	14469	14070	14214
Debt Service/Exp. G.& Serv. (incl. WR)	29.7%	29.8%	25.2%	24.2%	24.4%	26.0%	27.6%	28.0%	28.2%	27.5%	24.0%	21.7%
Debt Service/GDP	2.2%	2.4%	2.3%	2.4%	2.5%	2.8%	3.2%	3.5%	3.7%	3.8%	3.4%	3.3%
Interest/Exp. G.& Serv. (incl. WR)	14.1%	14.5%	14.6%	14.5%	15.6%	15.2%	13.9%	13.0%	12.2%	11.4%	10.7%	9.9%
Interest/GDP	1.1%	1.1%	1.4%	1.4%	1.6%	1.7%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%
Current Account Deficit (mill. US$)	-6397.1	-8915.0	-7937.8	-9680.0	-10709.7	-9560.0	-8120.7	-7337.7	-6868.1	-6929.6	-6981.6	-7326.2
Current Account Deficit/GDP	-2.5%	-3.3%	-3.0%	-3.5%	-3.7%	-3.1%	-2.5%	-2.2%	-1.9%	-1.8%	-1.7%	-1.7%
Terms of Trade Index	114	115	113	104	103	107	112	114	114	114	115	115
---Foreign Exchange Reserves---												
International Reserves (mill. US$)	6391	4959	4109	4099	4584	4971	5204	5580	6059	6531	7026	7557
Reserves in Months of Imports of GS	3.9	2.5	2.0	1.7	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6
memo:												
Import Statistical Discrepancy (nominal)	2539.0	4385.0	4000.0	4251.1	4612.0	4999.8	5410.6	5860.2	6445.7	6933.6	7464.2	8026.4
Import Statistical Discrepancy (real)	2719.0	4694.1	4106.3	4160.0	4326.4	4499.5	4679.4	4866.6	5061.3	5263.7	5474.3	5693.2

_1/ General government and the public enterprises
_2/ Five-year average, one year lag.
_3/ Current and investment expenditures
_4/ National Accounts definition
_5/ Includes public lending to private sector
_6/ Debt outstanding and disbursed.

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