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Folder Title: Moeen Qureshi Files - Presidential Chronological Correspondence -

September 6 - 20, 1989

Folder ID: 1671129

Series: Correspondence with World Bank President

Dates: 01/01/1989-12/31/1989

Sub-Fonds: Moeen Qureshi files

Fonds: Records of Individual Staff Members

ISAD Reference Code: WB IBRD/IDA STAFF-26-02

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THE WORLD BANK

Washington, D.C.

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M. QURESHI'S PRESIDENTIAL CHRON September 6-20, 1989





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Moeen Qureshi Files - Presidential Chronological Correspondence - September 6 - 20,

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OFFICE MEMORANDUM

DATE: September 22, 1989

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi MA

SUBJECT: The Bank's Role in the Tropical Forestry Action Plan (TFAP)

We have reviewed Mr. Stern's memorandum of August 30 with the Regional management to establish the extent of our current support for TFAP and assess present plans for future support.

Based on this review, I would like to offer the following assessment and recommendations:

- 1. Managers and staff in Operations are fully conversant with the objectives and processes of TFAP and have assessed their value added in the context of our own country-assistance plans. My Regional managers believe that the direct operational value of the TFAP framework differs significantly between countries, particularly as regards cost-effective development of a forestry lending pipeline. They recognize that TFAP can be used to improve the overall policy framework for forestry management and the efficiency and effectiveness of external assistance but their experience has shown that these broader, longer-term benefits of TFAP are only obtainable at a substantial cost, and can cause delays for ongoing project preparation. In a severely constrained budget, with specific restraints on economic and sector work, they wish to proceed very cautiously when it comes to initiating involvement with TFAP on a broad front.
- There is evidence that in those cases when we can allocate adequate staff and time, the TFAP process can be used advantageously. The Asia Region, in particular, has made a major effort to work with TFAP and adapt it to serve its own country assistance objectives (see attached memo). The cost is relatively high, but the Region looks upon it as long term "investment" in the formulation of a high quality, well-coordinated forestry development program. The potential benefits of the TFAP process are also beginning to emerge in selected African countries. However, in the other two Regions both country attitudes and experience with TFAP are much less favorable. The LAC Region is skeptical about how effective the Bank would be operating under TFAP in its countries. EMENA is monitoring the experience with TFAP in Pakistan where the AsDB provided the leadership, but otherwise considers the TFAP framework not applicable to most of its clients. Overall, there is a strong feeling in all Regions that we must have the freedom to choose the scale and intensity of our involvement with TFAP based on country circumstances, assistance objectives and aid coordination needs. Operational managers see no justification to confine our forestry work to TFAP countries only.

- 3. While I do not see any merit in forcing the Regions to adopt TFAP as the only vehicle for our Forestry work, I do believe that we should participate in most, if not all, country round-table discussions to ensure that the TFAP process, wherever it is applied, results in an improved policy framework for forestry management, better investment planning and better aid coordination for the country concerned. The looseness of the TFAP process, and the variable quality of the sector work on which the round-table discussions are based, could make it advisable for the Bank to stay away from a flawed process especially when we don't have the mandate and/or resources to turn it around.
- 4. I also believe that there are additional countries where Bank leadership of the sector mission, if requested, could be justified in terms of our longer-term assistance objectives. The Regions point out, however, that even the leadership assignments that we have already accepted are underfunded relative to the emerging cost of these tasks. Specifically, mission leadership needs to be assigned to senior task managers who need not be foresters, but who have to be able to work with and lead technical specialists. These mission leaders need to be committed for 18-24 months with a total input of about 30-40 staffweeks. All other expenses are generally expected to be covered by external funding, but to actually secure and administer that funding is again a time-consuming affair.

In light of the above, I suggest that we give the following "assurances" to the IDA-Deputies regarding our role in TFAP:

- We will commit ourselves to participate in all country roundtable discussions at an appropriate senior level based on monitoring and review of the TFAP activities leading up to the "round table";
- 2. We have completed three leadership assignments (Ghana, Kenya and Sudan); we are in the process of completing one in PNG, and are starting another in Ethiopia. If invited, we would be prepared to take on up to 5 more such assignments. At this time only one such request is under consideration: Zimbabwe has asked the Bank to lead their TFAP and this request is being considered.
- We should provide full information to the Deputies about the considerable work which we have already done with TFAP, particularly in the Asia and Africa Regions.

Attachment

cc: Mr. Ernest Stern Regional Vice Presidents THE WORLD BANKINTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 23, 1989

TO: Mr. Attila Karaosmanoglu, Vice President, ASIVP

FROM: Amnon Golan, Director, ASTDR

EXTENSION: 72713

SUBJECT: Asia: Forestry Initiative

As discussed with you, we propose to take a Regional initiative in forestry with the objective of significantly expanding Bank and other donor participation in forestry and allied natural resource investment in Asia Region client countries. Apart from developing our own capacito deal with forestry investments in the Region (a capacity that has expanded significantly since reorganization), we intend giving priorito improving inter donor coordination to the extent that a wider selection of investment opportunities are developed through intensified project preparation and lending activities; and a related commitment that investment funds from donor agencies would be available.

MA Houstons

- 2. We intend to take advantage of the forthcoming TFAP meeting in Washington scheduled for November 27 December 1, to invite about 50 participants to a half day "satellite session" to be sponsored by Asia Region on the morning of 27 November prior to the start of the TFAP meeting. This workshop would:
 - discuss main Regional issues as seen by the Bank through its current sector and investment work.
 - analyze why investment in the sector is low.
 - discuss coordination issues between the principal participant donors, particularly UNDP, FAO, ADB and the Bank; how they may be resolved, and how better inter agency critical mass could be achieved to enhance sector analysis and project preparation.
 - discuss how the Bank might support these initiatives.
 - discuss the need for a comprehensive donor/client meeting in May 1990 to pledge financial and technical support for expanding pre-investment studies, and gain support for increased funding for investment programs for the sector, and to identify and establish mechanisms to link TFAP, Master Plan, and other sector work in a more formal way.
 - identification of a location for the proposed meeting, and agree on its sponsorship and management.

- Attached are background papers and draft letters relating to the proposed December meeting.
- 4. We would like to alert you on four issues of importance all of which we require your advice:
 - (a) sponsorship and management. We feel it would be politic for the Bank and FAO (which is heavily involved in TFAP), to jointly sponsor the conference:
 - (b) location of 1990 donor meeting. This could be a touchy subject. While the Bank might wish to hold the conference in Washington there may be pressure from FAO to hold it in Rome or from ADB hold it in Manila.
 - (c) staff resources. These will be needed to: (i) prepare for the satellite session in December (about 13 weeks in total); (ii) prepare for the 1990 donor meeting; we will need to hire consultants (about 30 weeks) who would work with our staff to prepare and edit presentations for the conference; about 10 weeks of ASTAG and ASTEN input will also be required; and (iii) staff support for expected new regional initiatives. We estimate about four to five staff years per year for at least four or five years.
 - (d) funding for the preparation work and administration work for the conference. Total cost estimated at about \$200,000. For items (c) and (d) detailed estimates are under preparation, and will be forwarded to you as they are completed.
- 5. You should also be aware that ASTEN is working with donor organizations (bi-laterals and NGOs) to carry out a series of regional meetings on biodiversity over this period. The first meeting will be held in Bangkok from October 30 November 1, 1989. We feel these initiatives are complementary

Attachments

cc: M/M Asanuma (AS1DR), Kaji (AS2DR), Burki (AS3DR), Alisbah (AS4DR), Cheetham (AS5DR)
Wiehen (AS1VP)
Helman (AS1AG), Dowsett-Coirolo (AS2AG), Goldberg (AS3AG),
Wijnand (AS4AG), Cole (AS5AG), Davis, Contreras (ASTEG)
Rowe (AGRPS)

TROPICAL FORESTRY ACTION PLAN

ASIA SATELLITE SESSION: INTERAGENCY COORDINATION AND INVESTMENT IN FORESTRY

PROVISIONAL AGENDA

- Opening address and welcome. Major issues in forestry development in Asia: institutional, technical, economic and social. This presentation will emphasize the connection to wider land use planning issues.
- Analysis (by agencies) of why investment in the sector is low.
- Discussion of the coordination issue, focussing on the benefits attaining critical mass via interagency cooperation early in the proce of sector analysis and project identification.
- Presentation of a proposal for a major donor coordination meeting for forestry and related landuse in Asia, with the objectives of raising commitments to the sector, and establishing a mechanism to link TFAP, Master Plan and other sector work in a more formal way.
- Preliminary discussion of the role of the individual agencies in this process.

A PROPOSAL FOR PROMOTING INTERAGENCY COORDINATION AND INVESTMENT IN FORESTRY DEVELOPMENT IN THE ASIA REGION

1. Background

Exploitation of forest resources in the Asia Region has been taking place rapidly and countries are now facing serious deforestation and degradation problems. Projections show that if nothing is done to change this situation, problems will become more acute in the future with serious consequences for related sectors such as agriculture and, especially, for the poor.

Despite this, the current Bank pipeline in the forestry sector is modest: for 1989-1993 the Bank plans to finance 12 free-standing forestry projects amounting to US\$ 610 million. This is roughly equivalent to only 1.3 percent of the \$ 32,300 million which FAO has estimated as the required investment in forestrand about 2 percent of the Bank's total lending program in Asia.

There is an obvious need and considerable potential for further Bank involvemen in the Region.

2. Current International Initiatives

International assistance for forestry development in the Asia Region is mainly taking place in three forms. First, Forestry Master Plans are been prepared by the Asian Development Bank. Second, a large number of international donors operate in a coordinated manner in the framework of the Tropical Forestry Action Plan, TFAP. Third, a number of initiatives are supported outside these two schemes by bilateral donors and the Bank. The most important examples are the Bank investments in large countries, e.g. India, China and Indonesia.

While there have been attempts in the recent past to integrate these initiatives under the umbrella of the TFAP, success has been limited. This is because there are still substantial differences between the approaches being used. For example, the ADB Master Plan approach relies on detailed and expensive sector studies to prepare plans for action. Participation of other international donors in the preparation of plans is not considered to be an essential element in the process. Because of its emphasis on detail, Master Plans can take two or more years to complete. However, the Master Plan approach has been able to effectively integrate sector reviews and project identification missions with investment follow-up.

In the case of the TFAP, the idea is to produce a quick identification of investment options. Thus, plans do not need to be extremely detailed. The TFAP approach emphasizes international coordination and participation as well as participation of key national agencies. However, TFAP's sector reviews have not always had the benefit of an effective investment follow-up. There are several reasons for this. Many missions have taken place, led by different agencies with little or no continuity in personnel or supervision. This has resulted in proposals of varying quality, and often in unconvincing recommendations for action. TFAP proposals have also tended to focus on forestry development issues only, giving little attention to linkages with other initiatives and with conservation strategies, land settlement, agricultural and other land use

activities. Moreover, the lack of a sound policy perspective often results in investment proposals resembling "shopping lists" with a weak or non-existent sense of overall strategic direction and relative priorities. Partly because FAO is the international coordinating institution, a majority of the TFAP exercises have been led by that organization and this has introduced a marked technical assistance bias in the plans for action. Policy reform and effective preparation of sound investment proposals have been insufficiently emphasized.

Finally, the World Bank, for the most part, has acted independently, especially in large countries where the other approaches have not provided an adequate framework for effective action. Some bilateral agencies have also preferred, for various reasons, to operate in an autonomous manner.

There are a number of problems resulting from this proliferation of approaches which could usefully be discussed among donors working in Asia. First, there is a need to achieve a workable division of responsibilities between different agencies involved. In particular, the TFAP, the Master Plan and the Bar approaches need to be harmonized. There is a need to either allocate potential recipients between these different procedures and agencies or to integrate the in a more coordinated effort. Second, since there are many potentially overlapping initiatives such as conservation strategies and biodiversity plans, the Bank and other donors should analyze the linkages between forestry strategies and these related initiatives. Finally, there is also a need to examine the alternative methods to be used in designing donor coordination strategies for large countries.

To address these issues and lay the groundwork for expanded Bank investment in the forestry sector in Asia a number of steps are required.

3. Possible Follow-up Action

As a first step, the Bank could take advantage of the Meeting of TFAP Forestry Advisors scheduled to be held from 27 November to 1 December 1989 in Washington D.C., and organize a Satellite Session to analyze the situation in Asia. Arrangements for this Session are discussed below.

A longer range objective could be to convene a Regional Conference with the participation of forestry and planning agency officials from developing countries, as well as representatives from international agencies. The objectives would be to discuss approaches for promoting investment in forestry, and to develop a consensus. Such a Conference would benefit from an endorsement from the Satellite Session and could be held 6-12 months later, depending on the preparation needed.

4. The TFAP Satellite Session

(i) Agenda

The Agenda should include sections dedicated to the discussion of the status of the Tropical Forestry Action Plan and other umbrella programs in Asia; the potential for and constraints on increased technical and financial assistance; and, finally, future action in the Asia Region. See provisional agenda attached.

(ii) Participation

The Bank could invite all donor agencies with programs in Asia participating in the Meeting of the Group of TFAP Forestry Advisors. This would have the advantage of allowing for a broad and unrestricted participation. The support and cooperation of FAO and the Chairman of the TFAP Advisors Group should be sought. Draft letters to be addressed to FAO and the Chairman are included as Attachment 1 which also contains a draft letter of invitation to all other members of the TFAP Advisors Group to participate in the Satellite Session.

(iii) Dates

Monday 27 November 1989, from 9 to 12 hours.

Preparation for the Satellite Session

The Bank should be well prepared to discuss the issues at the Satellite Session

A position paper aimed at identifying key issues and achieving the necessary internal consensus on follow-up should be prepared. This paper should examine the main issues to be covered by the Satellite Session. Draft terms of reference for the preparation of this paper can be found in Attachment 2.

To ensure that the most important agencies will be represented at the Satellite Session, main donors should be informally contacted immediately to ascertain their interest. These agencies could include all those which have either participated in or led TFAP missions in Asia in the past. This involves a total of eleven agencies including FAO, the ADB and the World Bank (See Attachment 3). In addition, CIDA, whose representative is the present Chairperson of the Group of Advisors, USAID and WRI (which have not participated in the TFAP in Asia but are important) should also be contacted.

Responsibilities and resources need to be assigned for the preparation of the internal Position Paper and the organization of the Satellite Session. This implies staff time, estimated in eight weeks for drafting the position paper and three weeks for the organization of the Satellite Session. Two weeks of staff time and travel are required for collecting basic data and holding discussions with FAO, the TFAP Coordinating Agency, and with Ralph Roberts from CIDA, the current Chairman of the TFAP Group of Forestry Advisors.

Detailed plans for the formal Conference, if agreed, would be drawn up in early CY 90, after the Satellite Session was finished.

Attachment 1

INVITATION LETTER TO ALL AGENCIES WHICH ARE MEMBERS OF THE GROUP OF TFAP FORESTRY ADVISORS.

Dear

Destruction of tropical forests is becoming a serious economic and environmental issue in Asia. Management of forests in the region is a problem which needs to be addressed with urgency by the international community.

The forthcoming meeting of the Group of TFAP Advisors, which will take place from 27 November to 1 December 1989 in Washington D.C. provides an opportunity to discuss with interested parties, ways to increase the flow of technical and financial assistance to forestry programs in the Asia Region. We feel this discussion could be most effectively organized as a Satellite Session of the Forestry Advisors Meeting.

The Bank in cooperation with FAO is prepared to host a Satellite Session to be held during the Monday 27 November 1989. The Session will cover existing donor programs, the potential demands for investment and technical assistance in Asia, the constraints faced in satisfying these demands and the components of a program for urgent and intensified international action (See Provisional Agenda attached). The Satellite Session would follow-up and expand the debate initiated during the visit of the TFAP Forestry Advisors Group to the Asian Development Bank's Headquarters in Manila in November 1988.

I have the pleasure of inviting you to participate in the Asia Satellite Session. We feel this exercise will provide a valuable framework for increasing the coordinated involvement of major international donors in the promotion of forestry development in Asia. Your participation would be highly appreciated.

Sincerely yours,

LETTER TO FAO

Mr. Hollis Murray Assistant Director-General Forestry Department FAO Via delle Terme di Caracalla 00100 Rome, Italy

Dear Mr. Murray,

Destruction of tropical forests is becoming a serious economic and environmental issue in Asia. Management of forests in the region is a problem which needs to be addressed with urgency by the international community.

The forthcoming meeting of the Group of TFAP Advisors, which will take place from 27 November to 1 December 1989 in Washington D.C. provides an opportunity to discuss ways to increase the flow of technical and financial assistance to forestry programs in the Asia Region with interested parties. We feel this discussion could be most effectively organized as a Satellite Session of the Forestry Advisors Meeting.

The Bank is prepared to host a Satellite Session to be held on the morning of Monday 27 November 1989. In this endeavour, we would welcome the cooperation of FAO, through its TFAP Coordinating Unit. We are also seeking the endorsement and support of Mr. Ralph Roberts, Chairman of the TFAP Advisors Group.

We believe the Satellite Session should cover existing donor programs in Asia, the potential demands for investment and technical assistance, the constraints faced in satisfying these demands and the components of a program for urgent and intensified international action (See Provisional Agenda attached). The Satellite Session would follow-up and expand the debate initiated during the visit of the TFAP Forestry Advisors Group to the Asian Development Bank's Headquarters in Manila in November 1988.

If you agree, the details of cooperation between FAO and the World Bank in the organization of the Asia Satellite Session could be discussed shortly.

Your early reaction to this proposal would be highly appreciated.

Sincerely yours,

LETTER TO RALPH ROBERTS

Mr. Ralph W. Roberts
Chairman
Group of TFAP Forestry Advisors
200 Promenade du Portage
Hull, Quebec KlA 0G4
Canada

Dear Mr. Roberts,

Destruction of tropical forests is becoming a serious economic and environmental issue in Asia. Management of forests in the region is a problem which needs to be addressed with urgency by the international community.

The forthcoming meeting of the Group of TFAP Advisors, which will take place from 27 November to 1 December 1989 in Washington D.C. provides an opportunit to discuss with interested parties, ways to increase the flow of technical and financial assistance to forestry programs in the Asia Region. We feel this discussion could be most effectively organized as a Satellite Session of the Forestry Advisors Meeting.

The Bank is prepared to host a Satellite Session to be held during the morning of Monday 27 November 1989. In this endeavour, we would welcome your endorsement and support. We are also seeking the cooperation of the FAO Coordinating Unit.

We believe the Satellite Session should cover existing donor programs in Asia, the potential demands for investment and technical assistance, the constraints faced in satisfying these demands and the components of a program for urgent and intensified international action (See Provisional Agenda attached). The Satellite Session would follow-up and expand the debate initiated during the visit of the TFAP Forestry Advisors Group to the Asian Development Bank's Headquarters in Manila in November 1988.

Your early reaction to this proposal would be highly appreciated.

Internal Position Paper

The World Bank and the TFAP in the Asia Region

Terms of Reference

The immediate aim of this document will be to analyze the action of the World Bank in the forestry sector of the Asia Region, with particular reference to the linkages with the Tropical Forestry Action Plan. The final purpose is to facilitate the generation of a consensus about the actions the Bank should undertake in the near future to:

- * Increase the level of international coordination in the forestr development field in the Asia Region, and
- * Promote the flow of additional financial resources for forestry a conservation in the Asia Region.

The analysis should be focused on the following aspects:

- 1. Brief analysis of the status of forestry development in the Asia Region and of international initiatives now under way (Master Plans, TFAP exercises, others). How international action compares with perceived needs, both financial and technical assistance. How much could be invested, where and for what purposes. This analysis should be based on studies already completed, including the "Review of Forestry and Forest Industries in the Asia-Pacific Region" published by the Asian Development Bank, the country reviews carried out by TFAP missions, the Master Plans completed by the Asian Development Bank, and the studies prepared for the forthcoming meeting of the Asia-Pacific Forestry Commission.
- 2. Analysis of constraints impeding an expanded flow of financial resources for investment and technical assistance. Obstacles at the country level and obstacles related to the operations of international organizations. Illustrate with examples.
- 3. Strategy for increasing international coordination and increasing the flow of financial resources to forestry. The role of the World Bank in this respect. The study should analyze (including timetable, costs, etc) the option of holding:
- * A technical meeting to discuss the technical and economic elements of this strategy. The meeting would be attended by distinguished specialists with experience in the Asia Region and would make very specific recommendations for action by the Bank in terms of an investment programme for forestry.

* A Regional Conference. The purpose of this conference would be to raise awareness about the potential of forestry development and to obtain a higher level of commitment from both national and international agencies. The meeting would be attended by higher-ranking decision-makers and would not focus on technical matters but on the socio-economic, environmental and political advantages of an increased level of activity in the forestry-based sector. The strategy discussed at the previous technical meeting would be presented to decision-makers in plain, non-technical, language and a specific investment programme would be submitted for discussion and commitment of donor agencies.

Attachment 3

AGENCIES LEADING OR PARTICIPATING IN TFAP SECTOR REVIEW MISSIONS IN ASIA

1. Lead Agencies:

1.1. Multilateral:

UNDP: Fiji, Laos, Thailand, Viet Nam

FAO: Fiji, Laos, Viet Nam

ADB: Bhutan, Nepal, Pakistan, The Philippines

WB: Papua New Guinea

1.2. Bilateral

FINNIDA: The Philippines, Thailand

2. Participating in Sector Review Mission:

2.1. Multilateral

IIED: Papua New Guinea

FAO: Indonesia, Malaysia, Nepal, Pakistan, Papua New Guinea

ADB: Laos

World Bank: Laos

UNDP: Pakistan, Papua New Guinea

IUCN: Papua New Guinea SIDA: Laos, Viet Nam

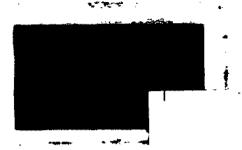
2.2 Bilateral

Australia: Fiji, Papua New Guinea New Zealand: Fiji, Papua New Guinea

Finland: Nepal

Germany: Pakistan, The Philippines, Papua New Guinea

Sweden: Laos, Viet Nam

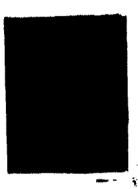


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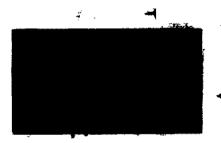
September 21, 1989

Mr. Conable:

I fully agree with Attila's recommendation. Please let me know if you approve of this position so that we all give identical signals.



MOEEN A. QURESHI Senior Vice President, Operations



FORM NO. 709

THE WORLD BANK/IFC

ROUTING SLIP		9/21/89		
	FROM THE REGIONA	L VIC	E PRESIDENT	
	NAME		ROOM NO.	
	Mr. Conable	····		
(cc: Messrs. & Ms.: (
	Haug, Kaji, Wie	ehen,	Yenal,	
	Ikram, Schaeffe	er		
	APPROPRIATE DISPOSITION	NOTE AND RETURN		
	APPROVAL	NOTE AND SEND ON PER OUR CONVERSATION		
	COMMENT			
	FOR ACTION	PER YOUR REQUEST		
X	INFORMATION	PREPARE REPLY		
	INITIAL	REC	RECOMMENDATION	
	NOTE AND FILE	SIGN	SIGNATURE	
	Mr. Qureshi so attached note be ma	uggeste ade par	ed that the	
	Annual Meetings br: Mi Conche I filly again			

AN UPDATE NOTE ON VIET NAM

At the 1987 Annual Meetings, the Viet Nam delegation had met Mr. Conable in order to discuss the reasons for the hiatus in Bank lending to Viet Nam and the conditions under which Bank-Viet Nam relations could be restored to a more normal footing. During the discussions, Mr. Conable had highlighted two concerns that inhibited such normalization: (a) the high level of "unproductive" (read military) spending by Viet Nam, and the consequent fear that IDA funds might be diverted to such expenditure; and (b) the weakness of the economic policy framework, which could make it difficult for Viet Nam to service debt that it incurred from the Bank Group.

Recent developments appear to have addressed both these concerns. Several reports indicate that Viet Nam has begun to withdraw its troops from Kampuchea, that by the end of September this withdrawal could be completed, and that a significant amount of military demobilization has already commenced. On the economic side, recent missions from the IMF and the Bank have described the sweeping changes in policy reform that have been implemented: in price liberalization, in exchange rate adjustment, in interest rate increases, in the functioning of public enterprises, and in controlling inflation. The Bank mission's assessment is that Viet Nam has gone further in policy reform in six months than China had in ten years, while the IMF mission for Article IV consultations reported that, except for the lack of external financing, "the new economic policies would, in the staff's view, be fully consistent with upper tranche conditionality."

In view of these developments, the Bank must take a view on what it tells the Viet Namese about the resumption of lending. Our recommendation is that Mr. Conable tell the Viet Namese the following: First, that Viet Nam should normalize its relations with the Fund; this would include settling its arrears to that organization. Second, that Viet Nam should arrange a SAF-type program with the Fund. Third, that IDA-9 would be operational from July 1990; we hoped that the situation would have clarified itself in all respects by that time, and that it would be possible to resume lending during FY91 in a measured manner.

ASIA REGION 9/20/89

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 21, 1989

TO: Mr. Barber C. Conable, EXC

THROUGH: Mr. Moeen A. Qureshi, OPNSV MHQ

FROM: David Bock, CFSDR CBork

EXT: 72942

SUBJECT: Debt Reduction Proposal from Dr. Herrhausen, Deutsche Bank

Introduction

- 1. Dr. Herrhausen has outlined a debt service reduction proposal which is fundamentally different from the Brady initiative. The proposal calls for a negotiated concerted action which will involve all commercial creditors and provide equal debt service relief for all participating debtor countries. A fundamental premise of the proposal is that new money is not only very unlikely to ever again provide sufficient and adequate financing relief, but that is in itself undesirable.
- 2. We think the proposal deserves your attention not only because it comes from Dr. Herrhausen, the chairman of one of the world's leading banks, but also because it echoes aspects of views voiced by other prominent bankers and people from the academic community. Proposals of the kind advocated by Dr. Herrhausen are likely to gain very considerably in their appeal and their viability should the current debt strategy fail ultimately to generate for the heavily indebted countries sufficient relief to put the debt crisis behind us. However, we frankly doubt the time is ripe for the necessary political initiatives which are pre-conditions for the plan to work.
- 3. Dr. Herrhausen's proposal (briefly described and analyzed below) was presented in a speech at the end of March 1989. On the occasion of the annual meeting, Dr. Herrhausen has written you to ask to meet you to discuss your thoughts on this issue.
- 4. In his letter, Dr. Herrhausen states that the Mexico deal has distracted attention from the overall necessity of debt relief for a large group of heavily indebted countries. For the plan to get off the ground, Dr. Herrhausen suggests that the Bank and the Fund (i) spell out and apply criteria for debtor country participation in a generalized debt service reduction program (ii) start pressuring creditor countries to implement appropriate tax and regulatory frameworks to facilitate banks' participation in such a program and, (iii) establish a standing international economic conference which, in cooperation with respective Bank Advisory Committees, would create

Consultative Groups; these groups would lay down the foundations for implementation of the banks' (Herrhausen's) "General Offer" plan.

Description of Dr. Herrhausen's Proposal

- 5. The proposal, with the indicative numbers from Dr. Herrhausen's speech, can be summarized as follows:
 - a. All selected countries which are willing to engage in a program with macro-economic conditionality determined by the Bank and the Fund, would be offered the following:
 - b. All eligible debt would be granted 25-30 years tenor and 5-7 years grace.
 - c. During the first 5 years, interest would be reduced progressively to 50% of current levels, (it is not entirely certain that Dr. Herrhausen envisages all participating countries to receive the same reduction). Meanwhile, banks would create (tax deductible) provisions in respect of their claims in the amount of up to 50%.
 - d. After 5 years, interest rates would be brought back to market levels at that time and, to compensate, principal would be reduced either immediately or progressively to 50% of its original face value with recourse to the accumulated provisions.
 - e. The <u>debtors</u> (1) may issue convertible bonds in nondollar currencies, (2) issue betterment (i.e. recapture) clauses, and (3) would have to agree to "claw-back" clauses which would come in effect if the country does not comply with conditionality establish by the Bank and the Fund.
 - f. The "creditor governments" would be required to change tax and regulations as appropriate, grant generous Paris Club reschedulings, and implement a flexible policy for their export credit insurers.
 - g. Dr. Herrhausen mentions that banks which do not wish to participate in the plan can provide new money, recycle interest payments (i.e. capitalize interest payments due), and/or choose among other (not specified) options. This point somewhat contradicts the overall idea of the plan; more details would be needed to evaluate its appropriate role in the proposal.
- 6. At the end of the speech, and somewhat detached from the proposal, Dr. Herrhausen states that no more lending in the foreseeable future can be expected from the commercial banks. "At best, the banks would sustain their engagement in short term trade

financing, project financing, and co-financing". The Bank, the Fund, and creditor governments must take on the task of residual financing. In the same paragraph, he wonders how the banks should value the new asset, and he answers, himself, that creditor governments might guarantee the assets until creditworthiness is restored.

Issues to be Addressed

- 7. The proposal has both a number of attractive features and a number of issues which have to be addressed. Compared to the Brady plan, it distinguishes itself in advocating a <u>concerted</u> debt service reduction action and refuting any suggestion that new money continues to be a sensible option. Thus, Dr. Herrhausen emphasizes the exigency of a general debt service reduction plan; the debt issue has changed from being a liquidity crisis to become a solvency crisis, and an insolvent debtor needs debt relief, not new money, which results in more debt.
- 8. The acknowledged need for debt service relief provided by the commercial banks is an attractive feature in Dr. Herrhausen's proposal. The possibility for success of the proposal in effect does not hinge on official resources for debt service reduction provided. Thus, the proposal, as such, could work without the official sector sponsored credit enhancement involved in the present strategy. Dr. Herrhausen envisages, however, the deal to be an exit vehicle for the banks, leaving all residual financing to the multilateral and bilateral creditors. Therefore, at the end of the day, it is not certain if the official sector ends up with a larger share of the debt or not. But it does indeed seem certain that the short term cash flow relief now provided by (involuntary) new money would have to be provided entirely by official funds.
- 9. The proposal raises a number of <u>political issues</u> which <u>have</u> to be <u>addressed</u>. The plan includes some of the features of earlier times' "grand solution" schemes with equal treatment for all, banks and debtors alike. Dr. Herrhausen's speech in March outlining the proposal was called "The Time is Ripe" but, is the time indeed ripe for such a major political move?
- 10. A pre-condition for the plan to work is an overall harmonization of tax and regulatory treatment in the <u>industrialized</u> <u>countries</u>. The framework of taxes and regulations presently in place was basically created to fit each country's banking system and, even though general agreement exists on the need to move toward harmonization, it has to be doubted whether policy makers in all major countries are ready to make the necessary detailed adjustments of their regulatory and tax frameworks at this stage.
- 11. The case by case approach has been favored despite its weaknesses because of the differences between <u>debtors</u>. Is the entire community of qualified highly indebted countries ready to change this approach and accept one concerted negotiation determining the price

for the one debt service reduction instrument, and thereafter rely on only multilateral and bilateral funds?

12. And among the <u>commercial banks</u> it is not totally clear how the problem of free riders would be solved. As mentioned above, the proposal needs some clarification concerning the options for the banks which do not wish to participate in the overall plan. In addition, despite proposals somewhat along the same lines from a number of prominent bankers, it is not obvious that all participating banks given their different regional interests - would agree to amend existing contracts in the necessary way and to accept uniform losses (e.g. Citi's insistence on remaining a new money bank).

cc: Messrs. Kashiwaya, Stern, Wood, Rao, Fischer, Shihata.

ENielsen/AToft:rmc

BER B. CONABLE

September 15, 1989

Messrs. Qureshi, Stern and Fischer

I will meet with Mr. Herrhausen during the Annual Meetings. I would appreciate if your staff could provide me with an analysis and background material on the Herrhausen proposal.

Bra Caba

Attachment

Mr. Barber Conable President THE WORLD BANK 1818 H Street Washington, DC

U.S.A.

Frankfurt, September 1, 1989

Dear Mr. Conable,

Further to our meeting in Washington at the end of March when we discussed the implications of Secretary Brady's Initiative and to contacts with Mr. Qureshi on the subject of a "General Offer" by the Commercial Banks, I should now like to resume discussions and take new steps in order to help ensure that the Initiative has the necessary thrust and sustained momentum. In view of the explicit encouragement I received from official circles, and particularly from the U.S., to come up with a plan, I am somewhat concerned that, thus far, there has been a lack of official reaction to the proposals submitted. With all due respect to the important basic accord now achieved between Mexico and its Bank Advisory Committee, I have the impression that this very case may have distracted our attention from the overriding political imperative to design and implement a general plan which, within a reasonable space of time, will enable a 1 1 qualifying debtors to regain normal market access and mobilize resources to promote growth in their economies.

Given the urgency of the problem and its eminently political dimension, I feel that my two-phase plan with its five years interest rate reduction followed, if circumstances warrant, by a reduction in principal, strikes out boldly in the right direction.

To get the plan off the ground and make it work, there are none-theless important prerequisites:

- The Bank and the Fund would have to resolutely assume their several roles as overall arbiters in deciding which countries, in fact, qualify for the banks' General Offer. Spelling out and applying criteria determining which countries deserve and/or need the benefits which will emanate from the Offer, is of cardinal importance.
- The Bank and the Fund, with their combined weight and expertise, will also have to exert their influence on member governments to ensure that tax and regulatory regimes are harmonized and generally made more conducive to the participation of as many banks as possible in the General Offer.

Secretary Brady's Initiative has undoubtedly triggered hopes in many highly indebted countries. Some of them do seem to have realized that there is no alternative to sound and sensible policies. Such countries would, potentially, qualify and they should be encouraged by positive signals that help from outside will be forthcoming if there is the resolve - inside - to put their house in order. Conversely: Any countries speculating that there might be benefits to be extorted from Mr. Brady's Initiative whilst sidestepping the Initiative's conditionality should be given clearly to understand that such strategies are futile and that "moral hazards" are unacceptable.

Uncertainties have arisen as to whether policy measures inspired by the new thinking will produce more durable results. Since conditionality is of the essence and is intended to function not only upfront but, rather, is to be sustained over a lengthier time horizon, it is imperative that concerted action be underpinned by p o l i t i c a l will and managerial ability within the debtor countries.

As I pointed out in my plan (Cf. p. 10 of "The Time Is Ripe"), discussions between the Bank and the Fund on the one side and borrowing countries on the other, would no longer focus on debt as such but rather on entire economies, serious reform and viable programs. In the same way as this process entails a standing international conference at the Bank and the Fund, the respective Bank Advisory Committees will, similarly, require fresh impetus and conceptual reinforcement. This could best be achieved by establishing "Consultative Groups". These groups could be chaired by the Bank and the Fund and should comprise not only bankers but also delegates from both the private and public sectors of the borrowing countries. The Bank and the Fund, in close cooperation with these Consultative Groups, would then lay the foundations for a timely implementation of the banks' General Offer.

What all this boils down to is that momentum must be restored and kept going not only for a few cases emerging one after another but for a broad spectrum of qualifying countries simultaneously applying for the help contained in the General Offer.

I would greatly appreciate your response and would be pleased to discuss your thoughts in further depth when we meet at the forthcoming IMF/World Bank Conference in Washington, D.C.

With best regards, I remain,

Yours sincerely,

Minil dentantes

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 20, 1989

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: My Visit to Argentina

890921006 1.

Last week I spent a couple of days in Buenos Aires, meeting the President, the Minister of Economy, the President of the Central Bank, the Minister of Labor, the Minister of Public Works, the Minister of Social Welfare, some journalists and industrialists. The following paragraphs summarize the main elements of the Government economic program, my impressions and the Region's plans on Argentina.

General Impressions

- President Menem's first two months have been a pleasant surprise to most of the Argentines as well as to foreigners. He inherited an economy in hyperinflation and close to breakdown. After assuming power, he quickly discarded his pre-election populist rhetoric, appointed seasoned managers to key positions and began to take hard decisions on the economy which none had expected. The most important elements of the economic program hitherto have been a massive devaluation, large adjustments of publicly administered prices, temporary reduction of industrial subsidies, some reduction of quantitative restrictions on external trade, and prices and incomes policy. Simultaneously, structural adjustment measures are being prepared. The main elements are privatization of some key public enterprises, reform of other public enterprises, and tax reform.
- After my discussions with the President and key ministers, 3. my basic impression is of greater determination to ensure stabilization and structural reform than was apparent in the previous Government, greater energy in establishing consensus and ensuring that the Government's plans gain support in the Congress and in public opinion, and greater cohesion of the economic team than during the Alfonsin Government. Clearly, the process has just begun and there are many open questions. These are: How will the transition take place from the current regime of frozen prices and incomes policy to a more flexible system? Will the Government succeed in underpinning its incomes policy with a rigorous management of Government finances? Is there sufficient depth to the administration to ensure sustained implementation? Will the Government be able to carry labor with it? The ministers are aware of these questions and some of these are being tackled. A farreaching tax reform program supported by the IMF and ourselves is already under preparation and, if implemented, could raise Government revenues by as much as 50%. The IMF mission which is

concluding its work is fairly confident that in 1990, the nonfinancial public sector would be able to eliminate its fiscal deficits provided that the expenditure and taxation plans are fully implemented. The IMF mission is reasonably confident about reaching an agreement on a SDR 1.1 billion standby.

Dialogue with the Government

- During my discussions I emphasized that stabilization and structural reform had to be viewed as mutually complementary and reinforcing; that a fundamental change in the size and operations of Government in the public enterprise area would take time and effort and that, in the meantime, stabilization had to be pursued vigorously. I also mentioned that previous attempts at stabilization and reform in Argentina had failed for one basic reason, namely, the inability of the Government to eliminate fiscal and quasi-fiscal deficits and that this would be the single most important issue in the operations of the Government. President Menem and his ministers seemed to be aware that their path would not be easy. In fact, the Government is already being challenged by the railway workers who are striking for higher wages. President Menem told me that he would not agree to higher wages for railway workers even if the railways did not run during an entire year. So far, the public pronouncements and the Government's actions project strength and determination and the Argentines, including a large part of the labor movement, seem to accept and support this. It is obvious that in the first few months the Argentine public opinion expects strong actions. It is also obvious that if the Government does not have visible success in controlling inflation, it may suffer the fate of the previous administration. President Menem seemed to understand this.
- During my various conversations with Government officials, I had suggested that Argentina not only needed a strong economic program and a strong leadership to implement it, but also needed to create credibility domestically and vis-a-vis the international financial community. The aborted Austral and Spring Plans supported in turn by the IMF and the World Bank, had stimulated not only capital flight but also a basic skepticism among Argentines as well as foreigners about the determination of Argentina's leaders and the capacity of the political system to pursue reform with sufficient vigor and for a long enough period so as to bring about fundamental change. The Government should not, therefore, expect a massive flow of official external resources simply because it had initiated stabilization. It would have to establish a track record and demonstrate domestic support. The key question was whether in the process the Argentines would decide to hold their capital domestically. Outsiders would want to see that a Government program is ultimately owned by the Argentines and has broad domestic support. There are indications that some export proceeds are being repatriated. Domestic interest rates, while still high, have gone down sharply and Central Bank reserves have improved.
- 6. On negotiations with commercial banks, I suggested to the Argentines that for the time being they concentrate on formulating

and implementing a credible domestic program, for that is what would ultimately help in negotiating a reasonable settlement of the commercial debt. But as their external position improves, they should consider at least a partial payment of interest to the commercial banks. I also discouraged them from pursuing bridge financing with the U.S., which is apparently under consideration.

Argentina-Bank Relations

- 7. The Argentines consider Bank support as central to the success of their plans. The Bank has been a very visible (although also much misunderstood) subject of commentary and speculation in Argentina ever since its association with the Spring Plan. Many people believe that massive capital flight and hyperinflation began when the Bank refused to release the second tranche of the trade loan, following an initial support during the early phases of the Spring Plan. There was also a widespread misconception that the Bank had suspended all disbursements in Argentina, an error I corrected in my encounters with the press. Because of the high quality of our economic and sector analysis and advice, the Bank is held in high esteem in Argentina. We have an active dialogue in practically all the economic sectors, fiscal and tax reform, banking and finance, trade, domestic deregulation, agriculture, public enterprise, and social programs.
- With regard to lending. I said to the Argentines that they should not expect the Bank to come forward immediately with quickdisbursing loans. I have said to them that we would conceive our operations in three tiers. The core would consist of projects in the social sectors which would be linked to a minimum of macroeconomic management, but where projects could proceed with reasonable economic efficiency even if a full-fledged stabilization program were not in effect. A second tier would include projects in infrastructure and agriculture where we would expect a fully operative stabilization program. The third tier would include adjustment loans; in this case, we would expect not only an ongoing stabilization program but a full agreement with Government on specific sectoral adjustment programs. I have not indicated any amounts to the Government, but my current thinking would be a low program of about \$200 million, a base program (including a successful stabilization program) at about \$500-\$600 million and a high program (requiring not only stabilization program but full agreement on adjustment programs in key sectors) at about one billion dollars a year.
- 9. I have identified with the Government three key areas for work with the Bank as a basis for establishing far-reaching programs which would complement and anchor the stabilization program -- public enterprise reform and privatization, finance and banking, external trade and domestic deregulation. I have suggested that we would work together on these areas and, if we have agreement on the measures to be taken as well as significant actions by the Government, adjustment loans could materialize thereafter. I also believe we should commit resources to assist the Government in articulating its strategy in the human

resource/poverty alleviation area. As to the existing trade and banking loans, I have said to the Government that the conditions underlying the banking loan have changed substantially and that, in any case, as the loan has not been signed, we should, therefore, let it lapse. On the second tranche of the trade loan, I have said that we would release it if there is a standby agreement with the IMF, and the Government meets all the other first and second tranche conditions.

- 10. In view of the extent of our work in Argentina, I have sought and obtained the Government's agreement to open a resident mission in Buenos Aires. We will proceed with the arrangements for it.
- 11. If you agree with the above, I suggest that this memorandum be the basis of our conversations with the Argentine delegation as well as Mr. Conable's conversation with President Menem.

cc: Messrs. Bottelier Selowsky Quijano

SSHusain:bce

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 19, 1989

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen Qureshi, Senior Vice-President, Operations

FROM: Paul Isangan, Acting Vice-President, Africa Region

EXTENSION: 34000

SUBJECT: Mr. Conable's Remarks to the African Governors

Attached please find a redraft of your remarks to the African Governors, incorporating comments on IFC and MIGA. Your briefing note for the meeting will follow.

Attachment

AFRICA'S DEVELOPMENT AGENDA: LONG-TERM PERSPECTIVES AND PRIORITIES

by

Barber B. Conable President, The World Bank

INTRODUCTION

Mr. Chairman, distinguished Governors, Ladies and Gentlemen:

It is my pleasure to welcome you once again to Washington. I particularly want to extend the warmest of welcomes to Angola which is formally joining the Bretton Woods family during these Annual Meetings.

CONSENSUS ON DEVELOPMENT OBJECTIVES

Africa's continuing economic crisis poses formidable difficulties--difficulties that demand urgent action. But this last year of the 1980s has also seen some positive signs and seeds of hope as we look forward to a new decade.

One of these positive signs is that despite debate about the nature of Africa's problems and the possible remedies, there is today a clearer sense of emerging consensus on Africa's development objectives. I have been impressed with this in my own personal discussions with African leaders. Moreover, this large degree of consensus was what struck me most when I met with the heads of international and regional organizations working in Africa at the World Bank in May of this year.

That meeting convinced me and I think everyone else who participated--the OAU, AfDB, ECA, UNICEF and the IMF - that the public controversies about Africa are exaggerated and harmful to African interests. There is, in fact, a shared viewpoint on so much:

- On the need for <u>sound macroeconomic frameworks</u> and policy reforms to ensure sustainable growth with equity.
- On the absolute priority to be given to <u>human resource development</u>
 and in particular to capacity building.
- On the central role of <u>agriculture</u> in raising incomes and achieving food security.
- · On giving much more attention to protecting the environment.
- On nurturing small-scale enterprises and grassroots organizations.
- · On promoting the role of women in development.
- · On enhancing regional cooperation and economic integration.
- · And on the need to find creative solutions to Africa's debt problems.

Is this not <u>common ground</u> that we all can share? I would welcome your views on this, because I believe that there is fertile soil here for Africa's development success over the long term.

A LONG-TERM PERSPECTIVE

There is no question that the 1980s have been a severe disappointment to Africa--and to all friends of Africa. We share responsibility for the failures of the past decade, because donor agencies and foreign advisors were involved in the development effort along with African governments. We must all learn from that experience.

Despite the disappointment, however, I do not accept the view that the 1980s have been a "lost decade" for Africa. For one thing, the movement toward economic reform and the resolution of Africans to take the principal responsibility for solving their economic problems - as

epitomized by the 1986 UN Special Session - was a major step forward. It is the foundation on which a successful strategy for the 1990s can be built. The World Bank stands ready to support Africa in implementing that strategy. But we acknowledge, as you do, that Africa's future can only be decided by Africans.

The 1980s have certainly been a decade of crisis management for Africa. Leaders have been preoccupied by the need to overcome immediate financial difficulties. But we must not lose sight of the need for a longer-term vision to guide our actions and to give us faith that there is light at the end of the tunnel.

As we discussed at our meeting here two years ago, the World

Bank has been working on a study that offers a long-term perspective on how

Sub-Saharan Africa might become more self-reliant and achieve sustainable

growth with equity. This report was reviewed by our Board of Directors on

September 15, and many of you will have already seen it.

The new report does not pretend to provide complete solutions.

Our goal rather has been to distill experience, listen to many different viewpoints, and set forth our best assessment of the policies and measures needed for Africa to achieve its objectives. The report is thus offered as a contribution to a continuing process of dialogue and consensus-building on programs to meet Africa's needs. We see it as a launching pad for further discussion and thinking on how Sub-Saharan Africa can escape its current crisis and move to a brighter tomorrow--with each country

interpreting and operationalizing the report according to its needs. I trust that it will be accepted by you in that spirit.

DEVELOPMENT AGENDA

The report suggests a number of inter-connected themes that will almost certainly shape Africa's development agenda - themes that build on the common ground already established. Let me touch on a few of these.

Adjustment With A Difference

First, the process of economic adjustment must be continued and deepened. The world is in the midst of a new technological age - driven by rapid advances in information and financial systems, in the biological sciences, and in materials research. To be competitive in this increasingly competitive world - and to ensure the economic growth that is essential for sustained development - African countries will need to be as efficient as possible; flexible in their production structures; and ready to adapt to changing global markets and demands. To achieve this competitive edge will require continuous policy adjustment.

The experience of the 1980s has shown, however, that it must be "adjustment with a difference." Different in the sense that greater account must be taken of the various needs and capabilities of individual countries. Different in that reforms must be designed not just to overcome the immediate financial difficulties but should lead to a fundamental transformation of production structures and build a solid basis for a permanent improvement in peoples' living standards. And different in that additional measures must be taken to protect the poor and the vulnerable

during the period of transition. The sequencing and funding of adjustment programs has to be improved and there must be clear and strong African ownership of the process.

Structural adjustment programs supported by the World Bank have in fact been evolving steadily in this direction over the past several years. They will continue to do so. The social dimension is now firmly embedded in our lending for adjustment. We have been trying to mobilize adequate resources for adjustment via the Special Program of Assistance (SPA) and other initiatives. And the Bank has been focusing more on the underlying structural deficiencies in African economies and ensuring that our traditional investment projects--which constitute 60 percent of our lending to Africa--are designed to complement our adjustment lending. This is all part of the philosophy of "adjustment with a difference".

2. Investing In People

The Report sees human resource development as central to the long term strategy. But here too it should be human resource development with a difference. More attention must be given to improving quality.

More resources must be applied—we propose a doubling. And the programs must be made more relevant to Africa's needs and situation. They must be much more cost effective.

Each country should establish monitorable programs for the improvement of education, health and nutrition - as well as a <u>timetable</u> for achieving universal coverage. We believe that some countries may be able to achieve that goal by the end of the 1990s; others may need 20 years; but

for no country should it take longer than 30 years. In other words, the goal is food security, primary education and basic health care for all the peoples of Africa within the next generation.

3. The Population Issue

The rate of population growth will be a major determinant of whether these goals can be attained. On current trends, Africa's population will double within the next 22 years. No region of the world has ever managed to achieve sustained development with this extraordinarily high rate of population growth.

Africa, therefore, has a choice: it can try to slow population growth progressively in order to give itself time to meet its children's needs. Or it can continue with its high growth rate whereby the number of people is assured, but the quality of their lives is not. If the latter choice is made, then the basic objective of development -- winning the war against poverty, ignorance and disease becomes that much more difficult. Viewed in this way, it is clear that issues such as safe motherhood, child spacing, and the role of women are not just optional extras, but essential items on Africa's development agenda.

4. Preserving Africa's Patrimony and Modernizing Agriculture

The link between accelerating population growth and Africa's environment must be clearly understood and addressed - because population is putting unsustainable pressure on agricultural land and other natural resources. Preserving Africa's patrimony is thus another priority matter.

Achieving faster economic growth for today's population at the cost of an unproductive natural habitat for future generations is not economic - and is simply not acceptable. No time should be lost in putting in place, country by country, environmental action plans and in mobilizing broad-based popular support for their effective implementation. Programs for agricultural modernization must also, of course, continue to be given urgent attention--for agriculture is, and will remain in the foreseeable future the key to Africa's growth and development. Such agricultural modernization must be made consistent with environmental protection and conservation.

Increasing Regional Integration

The call for increased regional cooperation and integration has long struck a resonant chord in Africa. The time has now come to move from words to deeds. But if the goal of greater regional integration is to be realized, bolder efforts will be required.

First, there will need to be much greater harmonization of macroeconomic policies--particularly exchange-rate and tariff policies--which can be part of a phased program of trade liberalization for African products. Second, experience suggests that the approach most likely to succeed will be pragmatic and incremental, allowing two or more countries to move forward with cooperation arrangements wherever opportunities arise.

Third, as far as possible, obstacles to the movement of capital, labor, and goods should be removed.

The large volume of unofficial cross-border trade within Africa already demonstrates that the potential for increased regional integration is great. Governments should respond positively to this market signal with the necessary official actions.

6. Fostering African Entrepreneurship.

The role that the private sector, and in particular small- and medium-scale enterprises, can play in fostering sub-Saharan Africa's growth is crucial. Governments of the region are increasingly striving to promote the development of African entrepreneurship and the World Bank will do everything it can to help in this area. I would note in this regard the success of the African Project Development Facility, a unique initiative launched by the International Finance Corporation (IFC) and the UNDP three years ago to help African entrepreneurs develop viable project proposals. I also have high expectations for the African Enterprise Fund, which enables IFC to reach directly small-scale projects in the region; and for AMSCo--a joint venture management company which IFC recently set up in partnership with a number of donor agencies as well as international private companies.

Sub-Saharan Africa has recognized the need for more foreign direct private investment to restore growth and improve the competitiveness of the region's productive sectors. But the flow of this type of investment remains much too small. The Multilateral Investment Guarantee Agency (MIGA) was established last year with the purpose of promoting foreign direct investment in developing countries. To date, some twenty Sub-Saharan African countries have either become members of MIGA or have

shown their intention to join by signing the MIGA Convention. I hope other countries will soon follow suit. I am pleased to announce that MIGA will in fact hold its very first investment promotion conference in an African country early next year, and I am confident that MIGA can greatly assist African countries in their efforts to enhance foreign direct investment and stimulate African entrepreneurship.

CAPACITY BUILDING: THEME OF THE FUTURE

The final theme that I want to focus today on is one which pervades our long-term report: capacity building. Whether in agriculture, industry, education or the social sectors, Africa is lacking in needed skills and strong public and private institutions.

There is no question that Africa has been treated differently from other regions in this important respect - and has suffered as a consequence. Despite over \$3 billion being spent on technical assistance every year; despite the presence of nearly 100,000 foreign "experts" in Sub-Saharan Africa (a greater number than at independence), the record clearly shows that not enough indigenous, sustainable African capacities have been built. This must change.

The challenge to help build African capacities is an acid test for the donor community. Technical assistance needs to be fundamentally rethought. First and foremost, technical assistance programs should aim to strengthen institutions and to leave behind in each case an enhanced capacity that is lasting. This requires more coordination, less paternalism and increased African participation in leadership. These must

must be made of those skilled Africans who are already available. That is a challenge for African governments as well as donors.

The concept of capacity building should inform every development activity in Africa. It should be an overarching theme of the 1990s--and into the 21st century, because it will take time. It will require a determined and sustained effort over several decades.

Yes, only Africans can achieve Africa's development. But Africans will only be able to do it if they have the skills and institutions to identify, respond to and manage change.

As I mentioned to you in Berlin last year, the World Bank - in partnership with the African Development Bank and UNDP - has begun actively working on a proposal for an African Capacity Building Initiative in policy analysis and economic management. Our extensive consultations have led us to conclude that since these analytical and management skills are so badly needed in every sector, this should be the place to begin. We hope - and fully expect - that both Africans and donors will respond positively to this Initiative. I would very much like to hear from you on this point.

CONCLUSION

Can Africa's development agenda for the 1990s and the start of the 21st century be achieved? My answer is an unequivocal "yes."

But again I repeat: it must happen from within Africa. Like trees, countries cannot be made to grow by being pulled upwards from outside; they must grow from within and from their own roots, setting their own priorities and drawing upon their own capacities.

External support can help; indeed, external support for Africa will need to be <u>substantially increased</u> if Africa's sustainable growth is to be achieved. The long-term study makes strong arguments for increased assistance to Africa. Indeed, the report calls for a global coalition for <u>Sub-Saharan Africa</u> - consisting of donors and Africans - that would address the entire range of long-term issues that will face the region in the 1990s and beyond.

I can assure you here and now that the World Bank plans to be a strong part of that coalition, working together with you and with all our partners to help build a better future for Africa.

Thank you.

OFFICE MEMORANDUM

DATE: September 19, 1989

TO: Mr. Barber B. Conable, President

THROUGH: Mr. Moeen A. Qureshi, Senior Vice President, OPN MX

FROM: Wilfried P. Thalwitz Vice President, EMN

EXTENSION: 32676

SUBJECT: Environmental Program for the Mediterranean (EPM)

Briefing Notes

- 1. You will be meeting Mr. Ernst-Gunther Bröder, Chairman of the European Investment Bank (EIB) on Sunday, September 24, 1989. This meeting follows the meeting which you had on June 2, 1989, with Mr. Alain Prate, Vice President, EIB.
- 2. The purpose of the meeting is to officially launch the operational phase of the Environmental Program for the Mediterranean (EPM). A joint statement to the press (Attachment I) has been prepared for this purpose. It describes the background, content and next steps of the EPM and provides specific information on some of the significant environmental issues of the Mediterranean area.
- 3. In your introduction, you may wish to mention some of the following points:
 - The environment is a top concern for the Bank, and EPM represents an important element of our environmental program.
 - You may express satisfaction at the close collaboration with EIB on such an important regional issue, and you look forward to the next phases of EPM within the joint EIB-Bank framework.
 - You are satisfied with the agreements reached with UNEP on the scope of collaboration between EIB, the Bank and the Mediterranean Action Plan (coordinated by UNEP).
 - EPM represents an important statement of joint corporate strategy to develop the environmental programs of both institutions in the Mediterranean region.
 - The following activities are being planned during the next six months:
 - * EIB and Bank staff will have some preliminary contacts with country delegations during the Annual Meetings;
 - * EIB and Bank staff will attend in early October the Sixth Meeting of the Contracting Parties of the Barcelona Convention and formally present the areas of cooperation between UNEP's Mediterranean Action Plan and EPM;

- * EIB and the Bank will jointly sponsor a workshop in early December to present and discuss the EPM with representatives of the Mediterranean countries from the environment and finance/planning agencies.
- A major step will be the start up of the Mediterranean Environmental Technical Assistance Program (METAP) by the end of 1989.
- You may point out that METAP will be operationally oriented to facilitate project preparation and the definition of policy packages, and that you expect that EPM will rapidly translate into significant action on the ground.
- 4. You may wish to use the opportunity of this meeting to discuss the following points:

Role of EIB in Northern Rim Countries. EIB would support the implementation of EPM through financing of environmental projects in both northern and southern rim countries, and though cofinancing with the Bank in southern rim countries.

- What is the expected impact of EPM on EIB environmental lending to northern rim countries (Spain, France, Italy and Greece)?

Funding. The funding issue for Phase III (the implementation phase) has not yet been tackled. It will be a major topic of study during Phase II and an implementation issue in Phase III as countries in the southern rim will try to finance their stepped up environmental programs.

- What type of funding mechanisms can be envisaged between northern and southern rim countries?
- What is the case for additionality and concessionality?
- What role could EIB play in this issue, particularly with respect to the European Community?

European Community. What is EIB's perception of the role of the European Community in terms of support and articulation with EPM?

WORLD BANK AND EUROPEAN INVESTMENT BANK ANNOUNCE

NEW ENVIRONMENTAL ACTION PLAN FOR THE MEDITERRANEAN

Washington, September 24, 1989 -- The World Bank and the European Investment Bank (EIB) today agreed to move ahead with major efforts to protect the Mediterranean Sea and its coastal areas from further environmental degradation. The two multilateral institutions will soon launch the operational phase of their Environmental Program for the Mediterranean (EPM), aimed at addressing the environmental policy, institutional, and investment related needs of the Mediterranean countries.

In announcing this agreement, World Bank President Barber B. Conable and EIB Chairman Ernst-Günther Bröder noted that the two institutions are assigning high priority to assisting countries of the region in the integration of environmental concerns into their economic development programs.

Mediterranean countries have for some time recognized the need for full collaboration and joint action to solve the region's environmental problems, as reflected in a number of initiatives including the Barcelona Convention and the Genoa Declaration. The heads of the World Bank and EIB jointly stressed that their initiative would directly support these efforts. They also emphasized that they would work in full cooperation with other international bodies, especially UNEP and the Commission of the EEC, in planning and implementing programs.

The Mediterranean area has been suffering from diverse forms of intense environmental degradation. These include many different forms of air, land and marine pollution. The pace of environmental damage has been accelerating, which has underscored the need for the international cooperative initiatives now going forward. $^{1/}$

These initiatives are seen as embracing major financing investments, whose scale has to be determined in the period ahead, as well as research and extensive technical assistance. A variety of major programs will have to stretch through the 1990s and plans are already well advanced for a set of technical assistance approaches that will run well into the middle of the next decade.

The EPM was initiated in 1988 as a regional study jointly funded by the two banks. This diagnostic phase, which builds on extensive work by UNEP, has just been completed. It enabled both institutions to understand better the nature, extent and causes of environmental degradation in countries bordering the Mediterranean Sea and to define appropriate instruments and priority areas for intervention so that a responsive program of assistance could be mounted.

The attached information sheets indicate some of the complexities of the issue, as well as the variety of environmental pressure that are now evident in this vital and vulnerable geographic area.

The second phase of EPM to be started early next year will focus on specific policy measures, the identification and preparation of investment projects and institutional strengthening activities based on the priority areas identified in the diagnostic phase. It will lead to the implementation of a broad array of regional and country-specific environmental activities. In addition to contributing their own policy analysis and project financing capabilities, the World Bank and the EIB would also play a catalytic role in mobilizing other financial resources.

The agenda of the two Banks under the EPM will embrace the following features:

- provision of technical assistance, policy advice, and research to strengthen the planning, management and understanding of environment and natural resources issues;
- support for the prevention and control of marine oil pollution;
- increased lending for pollution control, especially in the industry and energy sectors;
- promotion of policies and financing of investments for improved planning and management of the Mediterranean coastal zones;
- strengthening of water resources planning and management at the river basin and national levels;
- developing mechanisms for financing projects in wildlife and habitat conservation and the preservation of cultural heritage;
- assistance in the development of strong environmental institutions and improved financing-mechanisms of environmental programs in member countries;
- identification of cofinancing opportunities for investments in environmental protection and natural resources management;
- provision of opportunities for training of staff in fields related to environmental protection; and
- enhancement of the role of the private sector in addressing environmental protection and providing opportunities for the participation of non-governmental organizations.

To guide and support the implementation of the above agenda, the World Bank and the EIB have also agreed to create by the end of 1989 a new operational instrument, the Mediterranean Environmental Technical Assistance Program (METAP). METAP will be funded initially by the two banks and the United Nations Development Programme (UNDP).

OFFICE MEMORANDUM

Date: September 18, 1989

To: Mr. Barber B. Conable, EXC

Through: Mr. Moeen A. Qureshi, OPNSV MAD

From: Paul Asenman, Acting Vice President, AFRVP

Extension: 34380

Subject: Second Phase of the Special Program of Assistance (SPA)

1. As you know, the donors for the Special Program of Assistance for Sub-Saharan Africa asked the Bank to prepare a proposal for a second phase, and the attached Initial Discussion Note has been put together for the next meeting which takes place in Paris on October 4-6, 1989.

2. I would appreciate your approval to release the paper, which has been cleared by Mr. Stern.

SPECIAL PROGRAM OF ASSISTANCE

Options for a Second Phase

Initial Discussion Note

1. The main features of the Special Program of Assistance (SPA) can be summarized as follows:

The fundamental objective is structural adjustment in low-income, debt-distressed countries in Sub-Saharan Africa, particularly through the provision of quick-disbursing assistance to raise imports sufficiently to obtain aggregate economic growth about one percent higher than population growth. Some countries could and should grow faster (perhaps 2-3 percent above population growth), while others probably cannot.

Donors pledged highly concessional, quick-disbursing assistance to support reform and adjustment in eligible African countries during three years (1988-90). But they also recognized that this aid had to be complemented by greater official debt relief on increasingly concessional terms.

Donor funds are being allocated to meet the financing gaps of eligible countries through a collaborative and consultative framework, chaired by the World Bank. This framework has also increased the sharing of information among donors, both on financing requirements of recipients and on the planned adjustment lending operations of the Bank and other donors.

The donor partnership has also explored ways of *improving the quality of assistance* and accelerating disbursements, through simpler and more uniform procurement procedures and greater untying.

- 2. The SPA is thus helping channel and coordinate quick-disbursing balance-of-payments financing to support growth in debt-distressed Sub-Saharan African countries during a difficult period of adjustment. The rigidities of these economies as well as the depth of distortions and the difficulties of the world economic environment lengthen the adjustment process and extend the need for special and well-coordinated support. A second phase of the SPA would help meet this continuing need. Adequate adjustment and growth in these economies will eventually reduce dependence on the type of support provided through the SPA and facilitate a transition back to assistance linked more directly to investments.
- 3. At the April 1989 multi-donor meeting, the SPA donors invited the World Bank to explore options for the design and scope of a second phase of the SPA (SPA2). This is an *initial* note reviewing the issues and options related to a second phase and is intended for discussion at the meeting in October 1989. On the basis of guidance received from donors, the Bank would prepare, for discussion at the subsequent SPA meeting in April 1990, a *formal paper* elaborating the second phase, including a thorough review of achievements under the current SPA (SPA1), updating and extending the initial assessment contained in the Development Committee paper on "Progress on Initiatives Benefiting Sub-Saharan Africa," of April 1989. (Relevant sections are appended as an Annex.)

Eligibility criteria

- 4. Under SPA1 eligibility criteria are: (a) poverty (recipients of IDA credits but not IBRD loans that is, the "IDA-only" countries); (b) debt distress (originally defined by a proxy variable a projected debt service ratio of 30 percent or more in 1988-90); and (c) adjustment requiring quick-disbursing financial support (implementation of a policy reform program supported by the Bank and/or IMF, including agreement on a Policy Framework Paper). Under these criteria, 22 countries are now eligible. (See Table 1.)
- 5. **Poverty.** In preparing the formal paper on SPA2 the Bank proposes to continue to define the poverty criterion as **IDA-only** countries, which is a benchmark widely used by other donor/creditor initiatives, including the application of Toronto terms by the Paris Club.
- 6. An option that donors may wish to consider would be to broaden the poverty criterion to include all countries that receive IDA credits irrespective of whether they also obtain IBRD loans ("IDA recipients") or that meet the formal eligibility criteria for IDA credits even though they do not actually receive them ("IDA-eligible countries"). Including all current IDA recipients would qualify Nigeria immediately. The inclusion of all countries formally eligible for IDA credits would make four additional countries potentially eligible (if they all had adjustment programs that needed support with quick-disbursing assistance), and two of these (Congo and Cote d'Ivoire) could qualify soon. (See Table 1.)
- 7. The rationale for retaining the current definition of the poverty criterion is that it preserves the sharp focus of SPA1 on efforts to channel additional concessional resources and special debt relief measures to the poorest, least creditworthy African countries. Limiting the benefits to these countries helped make the special program, especially the debt relief measures, acceptable to donors and creditors. Even Nigeria, which receives IDA credits and has a lower GNP per capita than some SPA countries, has been considered by SPA donors to need separate treatment because of its much larger size, its large amount of commercial bank debt, and its continued reliance on non-concessional flows, including IBRD loans. Expanding the program to include other countries would also raise the question of whether SPA financing components should include official non-concessional funds and the larger debt menu under the Brady Plan that are available to these countries.
- 8. Even though five other IDA-eligible countries would not qualify for the SPA under the poverty criterion as currently defined, most have special needs, for which the donor community needs to devise solutions. Such solutions need not be identical with the current SPA. Donors may wish to discuss under what circumstances it would be appropriate to broaden the poverty criterion to include these countries, but in the Bank's view it is premature to change eligibility criteria to include them until there is agreement on measures that would provide the resources to cover their needs adequately. To facilitate discussion of efforts other than the SPA to assist these countries, the Bank could monitor their economic situation and financing needs and provide relevant data to SPA donors. This information could be reviewed in detail at SPA meetings, and SPA donors could discuss measures the international community might consider for assisting them.
- 9. **Debt distress.** Economic difficulties and the constraints on external resources associated with massive debt stocks and large debt service obligations and payments were an important impetus in launching the SPA. The first phase thus aimed to assist countries where debt was a major constraint on the availability of resources required for growth. An initial list of these countries was based on a single proxy measure of debt distress that could be related directly to debt service obligations and debt relief (the projected debt service ratio of 30 percent or more).

- 10. Donors may wish to consider for dropping debt-distress as an eligibility criterion. As a practical matter, virtually all IDA-only countries qualify as debt distressed, especially in light of the flexibility that donors have accepted so far in applying the criterion. More importantly, the proxy measure has not been very useful in distinguishing countries that need additional financing from those that do not. Low-income countries that are not now classified as debt-distressed would also need special additional quick-disbursing assistance to support their adjustment efforts. An advantage of including countries in the SPA that do not now qualify under the narrow definition of debt distress is that it could be seen as rewarding them for having pursued more reasonable borrowing policies in the past. Bringing them under the SPA could also help avert more serious debt problems in the future. As only a few additional countries would qualify, the additional call on SPA resources should be manageable.
- Alternatively, retaining debt distress as a formal eligibility criterion might generate broader support for a second phase of the SPA as a special initiative. Maintaining the debt distress criterion would also be consistent with any inclusion of an additional financing component of the SPA to cover commercial debt (see "financing components," below). In this case, it might be appropriate to define debt distress more flexibly (based on several proxy measures) than under SPA1, especially since the impact of debt on growth prospects depends on several factors, including grant receipts and private transfers, which the projected debt service ratio does not adequately reflect. A more flexible definition of debt distress, or dropping the criterion altogether, would expand the list of countries that might eventually qualify, but would not have any immediate change on eligible countries, as all IDA-only countries with adjustment programs are currently eligible for the SPA.
- 12. Adjustment. The Bank proposes retaining this eligibility criterion as it is now applied (that is, that the government is implementing an adjustment program supported by the Bank and/or IMF). The link with adjustment is important because quick-disbursing resources help make policy reforms more effective and sustainable during adjustment, while the reforms help ensure that the resources are used efficiently. Moreover, the SPA provides a mechanism to coordinate quick-disbursing funds from various donors.

Duration

- 13. The Bank proposes that the SPA2 cover 1991-93, the three years following SPA1. A three-year period would seem to be reasonable in terms of donors' budgeting horizons and the reliability of economic projections. This period also coincides with the period for the IDA9 replenishment.
- 14. However, donors may wish to consider a five-year extension which would provide a medium-term planning horizon more consistent with the time frame of recipient countries' structural adjustment programs. It would reduce the frequency of renewals and would also coincide with the period of Lome4.

Financing requirements

- 15. The level of financing required for SPA2 will depend on economic forecasts and, perhaps more importantly, on the number of countries included. Until firm decisions are made on eligibility criteria, estimates can only be indicative.
- 16. Assuming a three-year (1991-93) SPA2 covering the 22 debt-distressed IDA-only countries that now have in place adjustment programs requiring substantial support in the form

of quick-disbursing assistance, total gap financing — before any debt relief and any balance of payments support — could be in the range of US\$15 billion to US\$20 billion. If the other IDA-only countries were to become eligible, gap financing requirements could rise by several billion dollars (of which a substantial share would be settlement of arrears owed by Sudan and Zambia to multilateral creditors). If Nigeria were included, the financing gap could rise by another US\$6 billion, before rescheduling.

Financing Components

- 17. The Bank proposes that SPA2 include the five components for balance of payments financing under SPA1 plus a new component dealing with commercial debt.
 - a) Cofinancing and coordinated financing for balance of payments support under adjustment programs, as described below under "pledges".
 - b) IDA9 adjustment lending, with no distinction between "regular" and "additional" IDA adjustment lending (under SPA1, about a third of IDA adjustment lending to SPA countries was considered to be "additional").
 - c) Supplemental IDA adjustment credits and associated cofinancing (to IDA-only countries with outstanding IBRD debt), in accordance with the principles approved by the Board of Executive Directors of IDA in September 1988. (This was originally referred to as the "fifth dimension".)
 - d) SAF and ESAF (both IMF facilities would be treated as equivalent sources of balance of payments financing, though monitored separately).
 - e) Official debt relief, including additional ODA forgiveness and continued rescheduling of non-concessional debt on easier terms (with more attention by Paris Club creditors to the possibility of including official bilateral creditors outside the regular Paris Club agreements, enlarging the pool of eligible debt (by moving cutoff dates forward and by including more previously rescheduled debt and arrears), and rescheduling under multi-year framework agreements).
 - Reduction of commercial debt and debt service, covering all medium and long term debt owed to commercial creditors by, or with the guarantee of, debtor governments, provided it is not also guaranteed in any way by creditor governments, third parties or assets. Although this debt is a small share of total debt (perhaps less than 5 percent in low-income Africa), it is two or three times larger as a share of debt service for many countries because its terms are usually harder than those of official debt. When serviced, this debt drains resources, including those provided under the SPA, from imports needed for growth. When not serviced, it interferes with countries' efforts to attract voluntary capital inflows, including trade financing on reasonable terms and private direct investment. Bringing commercial debt and debt service under the SPA will make debt workouts more comprehensive and effective and, by helping normalize relations with commercial creditors, could be expected to lower spreads on trade credits and to reduce an impediment to foreign investment. It would also help achieve more balanced burden-sharing among all donors and creditors, especially as increased assistance and official debt relief otherwise strengthen the claims of commercial creditors. Financing for this component would include the allocation of US\$100 million from FY89 IBRD Net Income to establish a facility to be administered by IDA for commercial debt and debt service reduction.

- 18. To simplify monitoring and analysis (and to reduce confusion about what is included or excluded from the financing gap), the Bank proposes that all quick-disbursing balance of payments financing in support of adjustment programs be considered as SPA financing under the program. All financing for project investments (both grants and loans) would be included in resources ("above the line"), while all adjustment-related, quick-disbursing assistance would be included in gap financing ("below the line").
- 19. No amounts have yet been estimated for the various financing components, pending completion of negotiations on multilateral replenishments (IDA9 and Lome4), consensus on eligibility criteria, and more detailed country projections. Estimates could be prepared for the spring 1990 meeting, which would take into account the results of IDA9 and Lome4 negotiations, as well as projected debt relief from various menu options.

Pledges

- Cofinancing and coordinated financing pledges for SPA2 could be presented at the spring 1990 donors meeting, in the context of finalizing the design of the program and the scope of its support. Early pledging would smooth the transition from SPA1 by ensuring that programming for adjustment operations after 1990 begins soon enough to maintain the momentum in committing and disbursing resources that is being established under the current program. However, because some donors may need further consultations following the spring 1990 meeting, it may be necessary to consider convening a special donors meeting in mid-1990. Pledging could also be handled at the regular autumn 1990 meeting, but waiting until then would leave little margin for subsequent consultations, if needed, and would risk slowing the momentum of SPA1 and possibly reducing the flow of adjustment resources to eligible countries.
- As under SPA1, donors would be expected to pledge specific amounts of aid on highly concessional terms (IDA terms or better -- an 80 percent grant element or more) for cofinancing and coordinated financing of IDA-supported adjustment programs during the SPA2 period. These funds would retain their specific donor identity and would be allocated and disbursed by individual donors (except where the Bank is requested to administer the funds). Also as under SPA1, certain types of assistance should not be included in the cofinancing and coordinated financing pledges, including debt relief and forgiveness, contributions to other SPA components, emergency assistance, food and similar commodity aid that is not explicitly linked to adjustment programs, technical cooperation grants and loans, and all project-related investment funding.
- 22. To maximize aid efficiency and to simplify administration, donors' pledges should to the extent possible be wholly untied (that is, available for worldwide procurement) and disbursed according to simplified common procurement practices as discussed and broadly agreed to under SPA1. Furthermore, to facilitate monitoring, donors might present their pledges divided into grants and loans, amounts for cash or commodity support, and proportions subject to general or donor-specific procurement rules. Donors may wish to discuss specific guidelines for pledges under SPA2.

Content

23. The Bank proposes that the SPA2 continue to focus on channeling and allocating quick-disbursing assistance (balance of payments financing) to support adjustment programs. The SPA multi-donor meetings and other consultative arrangements would help allocate such assistance among eligible countries and monitor commitments and disbursements of it, as under SPA1.

Discussions during the SPA meetings could also cover general issues related directly to policy-based lending, including lessons learned from experience with adjustment lending, concerns about the thrust of macroeconomic policy advice, and how to deal better with social problems arising out of various adjustment scenarios.

- 24. There is a concern among donors to ensure that quick-disbursing balance of payments support under the SPA for macroeconomic and sector policy reform be accompanied by an adequate level of investment financing in recipient countries. To help accomplish this, some donors have suggested expanding the scope of SPA2 to encompass investment financing, especially in critical sectors. In addition, some donors suggest widening discussions at SPA meetings to help reach agreement among donors on development objectives and strategies in these sectors, on relevant sector policies, and on appropriate expenditure priorities. As a minimum, the information mechanism developed in the SPA might be used to help monitor investment levels across the board, including donor financing of investment.
- Better monitoring and more coherent programming of investment would be a valuable contribution, but the Bank is not proposing to enlarge SPA2 to encompass investment financing and sector issues. Enlarging the SPA to cover investment issues could dilute the focus of SPA objectives and actions and, given the sizable task of tracking donor commitments and disbursements under SPA1, even monitoring investment financing would risk creating extremely heavy, cumbersome reporting requirements for donors. There are other, existing mechanisms for mobilizing and channeling investment financing in key sectors, including, for example, the arrangements on education in Africa, which were an outgrowth of the Bank's policy paper on the sector. Consultative Group (or Roundtable) meetings for each recipient can help ensure that there is a proper balance between pledges for quick-disbursing import support being channeled through the SPA and those for investment financing, both overall and sector by sector. Finally, the concern that adjustment support is reducing investment is not strongly supported by currently available data, which do not indicate substantial diversion away from investment; overall investment levels appear to be rising in SPA countries. 1/ Moreover, some SPA quick-disbursing resources already finance investment indirectly (e.g., commodity support for rehabilitation) and, because resources are fungible, provision of SPA resources for recurrent import support helps free up resources from other sources, both domestic and foreign, for investment.

Mechanisms

- 26. One of the strengths of the SPA is its informal collaborative framework. The Bank proposes that the SPA1 mechanisms be continued, including:
 - (a) quarterly and semi-annual reporting on allocation and disbursement of pledges;
 - (b) semi-annual plenary meetings to discuss country eligibility, progress on meeting financing gaps, and general issues related to adjustment lending (see "content," above);
 - (c) special technical meetings on selected countries and on donor issues linked to SPA implementation, generally held about the same time as the plenary meetings;
 - (d) frequent working level contacts and exchange of all relevant documents; and

^{1/} For example, on the basis of currently available data for 14 SPA countries, the average unweighted growth rate of real investment rose from 1.5 percent in 1987 to 2.8 percent in 1988; nine countries showed improvement but five did not. Total real investment in these two countries grew 5.5 percent in 1988, compared to a decline the year before.

(e) continuing work on selected issues like standardization of disbursement and procurement procedures.

Other donors

27. SPA cofinanciers should continue to explore how to encourage other donors to participate in the SPA partnership, both to bring additional financing and to provide comparable debt relief. To accomplish this, SPA donors might discuss at the October meeting how and when to proceed, including a shared responsibility for action to approach these other donors.

The World Bank, Washington D.C. September 15, 1989

Table 1. Groups of Sub-Saharan Countries 1/

I - IDA-only countries currently eligible for the SPA

Benin (310)	Burundi (250)	CAR (330) 2/
Chad (150) 2/	Gambia (220)	Ghana (390)
Guinea ()	Guinea Bissau (160)	Kenya (330)
Madagascar (210)	Malawi (160)	Mali (210)
Mauritania (440)	Mozambique (170)	Niger (260)
Sao Tome & Pr. (280)	Senegal (520)	Somalia (290)
Tanzania (180)		Uganda (260)
Zaire (150)		

II - Other IDA-only countries 3/

Angola () 4/	Burkina Faso (190)	Cape Verde (500)
Comoros (370)*	Djibouti ()	Equatorial Guinea ()*
Ethiopia (130)	Liberia (450)*	Lesotho (370)
Rwanda (300)	Sierra Leone (300)*	Sudan (330)*
Zambia (250)*	, ,	,

III - Other IDA recipients (IDA/IBRD "blend") countries

Nigeria (370)

IV - Other countries formally eligible for IDA credits

Congo (870)	Cote d'Ivoire (740)	Zimbabwe (580)
Swaziland (700)		

V - Countries not eligible for IDA

Botswana (1050)	Cameroon (970)	Gabon (2700)
Mauritius (1490)	Sevchelles (3120)	

^{1/} Figures in parentheses are 1987 GNP per capita in US dollars, based on the World Bank's Atlas methodology, from Table 1 and Box A.1. in the "World Development Indicators" of the 1989 World Development Report. The formal eligibility criterion for IDA credits is a 1987 GNP per capita of \$940 or less. Operationally, only countries with 1987 GNP per capita below \$580 actually receive IDA credits; some of these may also receive IBRD loans.

^{2/} Donors agreed that CAR qualified as debt distressed because its projected 1988-90 debt service ratio was only slightly less than the 30 percent threshold. Donors also agreed during the second year of the program that Chad qualified as debt-distressed because its projected debt service ratio for 1989-90 exceeded 30 percent.

^{3/} Asterisks indicate List B countries under SPA1 (that is, debt-distressed IDA-only countries that would be eligible for SPA if they had adjustment programs).

^{4/} Angola's membership in IDA and IBRD has been approved and the Government is now completing the formal procedures.

Progress of Initiatives Benefiting Sub-Saharan Africa prepared for the Development Committee Meeting
April 4, 1989

III. INITIATIVES BENEFITING SUB-SAHARAN AFRICA

In recognition of the problems facing the region and the reform efforts by most countries, the international donor and creditor community has launched many initiatives to benefit the region. The initiatives deal with external financial problems, social aspects of adjustment and development, and long-term development issues.

A. Dealing with external financing problems

The Special Program of Assistance

The World Bank formally launched the Special Program of Assistance for low-income, debt-distressed countries in Sub-Saharan Africa at a donors conference in December 1987, following the earlier endorsement of the Development Committee. The objective of the three-year program is to help eligible countries adjust and grow, while restoring and sustaining normal debtor-creditor relationships. The program provides for substantially increased, highly concessional, quick-disbursing financing, and debt relief on softer terms to expand import capacities in eligible countries. Additional financing for imports will help governments implement the reform programs described above and strengthen the economic response to these reforms.

Donors have agreed on three eligibility criteria: (1) poverty (eligibility for IDA credits but not IBRD loans), (2) debt problems (a projected debt service ratio of 30 percent or more in 1988-90), and (3) adjustment (currently implementing a policy reform program supported by the Bank and IMF, including agreement on a Policy Framework Paper). Nineteen countries are currently eligible and all but one has a SAF or ESAF program with the IMF. Others may be approved soon.

The program established a framework of five elements for case-by-case assistance to eligible countries. This framework includes (1) increased adjustment lending from IDA-8, (2) increased cofinancing and coordinated financing from bilateral and other multilateral donors for adjustment operations, and (3) supplemental IDA adjustment credits; these resources would be provided in conjunction with (4) additional IMF resources from the ESAF and (5) greater debt relief. Within the framework, the World Bank monitors progress on all components, but it actively manages only the first three. These five components constitute the pool of additional assistance being made available to eligible debt-distressed countries under the SPA, although the total resources available for some components are not necessarily restricted to African low-income, debt-distressed countries or limited to 1988-90.

- (1) Additional IDA-8 adjustment lending. Within the IDA-8 allocation for Africa, US\$ 1 billion above regular project and program lending is being programmed to SPA countries. Additional IDA disbursements to the 19 currently eligible countries are projected at US\$0.7 billion in 1988-90.
- (2) Increased cofinancing of adjustment operations. Eighteen donor governments and multilateral agencies pledged an initial US\$6.4 billion in concessional, quick-disbursing funds for low-income African countries with debt problems. These funds will be provided through both formal cofinancing of specific IDA-supported adjustment operations and other financing coordinated closely with these same operations. 5
- (3) Supplemental IDA adjustment credits. The special allocation of IDA reflows and income for supplemental IDA adjustment credits for IDA-only countries with outstanding IBRD debt (other than for enclave projects) was added in September 1988 to support the SPA. The global allocation would average 10 percent of IDA reflows and investment income on IDA donor encashments in fiscal 1989-93, divided among qualifying countries in proportion to their IBRD interest payments.
 - (4) ESAF. The ESAF is fully explained below.
- (5) More concessional debt relief. The SPA calls for continued rescheduling on conventional terms to provide cash-flow relief during 1988-90. Such rescheduling has occurred or is expected for 16 of the 19 countries. But the SPA also calls for more concessional debt relief in two forms: (1) further conversion of bilateral ODA loans to grants, and (2) softer terms on rescheduled commercial loans from or guaranteed by creditor governments.

Some donors have discussed the possibility of including, within the framework, proposals to deal with commercial debt not eligible for Paris Club rescheduling. This private debt is about 3 percent of total external debt and 7 percent of debt service payments of the 19 countries currently eligible for the SPA. An objective of any proposal to reduce this private debt would be to transfer to debtor countries the prevailing market discounts on it (which are 75 percent or more). This could be accomplished through a variety of mechanisms, including direct cash buybacks, debt for debt swaps, conversion of debt to equity, exit bonds, or direct contributions by creditor institutions.

Accomplishments under the SPA

The SPA was established to increase financial support during 1988-90. Financial workouts for 19 countries project contributions from each of the five components as shown in table 4. Provided the combined resources available under the SPA components can be disbursed fast enough, they have the potential to close the 1988-90 financing gaps in the eligible debt-distressed countries.

In the first year of the SPA, donors have mobilized substantial resources for eligible countries. Although empirical and methodological problems make it difficult to compare 1988 results to previous years, there

is evidence that the SPA program has dramatically improved the external resource balances of eligible countries (see table 5). Estimated ODA disbursements rose to US\$7.2 billion, an increase of over 10 percent in real terms over 1987 levels.

Less progress has been made, however, on reducing debt service payments, which appear to be mounting. In 1988, the debt service ratio remained above 30 percent and would have been much higher except for the estimated one-third increase in export earnings. Despite rising debt service payments, real per capita imports are estimated to have risen by more than 25 percent.

Table 4. Projected disbursements for SPA-eligible countries

		(US\$ billions) (Percent)		1988 Preliminary (USS billions)	
Exte	rnal financing gap (19 countries)	13.3	166	3.2	
SPA	inancing and reduction in debt service				
1.	Additional IDA-8 adjustment lending	6.7	5	6.1	
2.	Increased cofinancing of adjustment operations	3.8	29	1.0	
	from commitments indicated already	2.6	26	1.0	
	from additional commitments being sought	1.2	9	-	
3.	Supplemental IDA adjustment credits	Ø.2	1	0.0	
4.	ESAF	1.4	16	0.2	
5.	Debt relief (including on arrears), total	7.2	54	1.9	

Notes: Totals may not reconcile because of rounding.
Projections for the ESAF are illustrative. As of the end of 1988,
US\$0.8 billion had been committed from the ESAF. Projected
disbursements from the SAF are taken into account in estimating
the external financing gap; SAF disbursements were US\$0.3 billion
in 1988.

- (1) Additional IDA-8 adjustment lending. There has been a rising share of total IDA commitments in Sub-Saharan Africa allocated to SPA-eligible countries. In fiscal 1988, the share reached 81 percent, up from an average of 71 percent in fiscal 1985-87. About 50 percent of IDA lending supports adjustment. In calendar 1988 more than US\$0.8 billion was approved for 11 adjustment operations in nine of the 19 eligible countries, of which about US\$0.3 billion was disbursed during the year. The first-year disbursement rate on these SPA commitments is about twice that for overall IDA adjustment lending in Africa. Roughly a third of this represents additional financing as part of the World Bank's contribution to the SPA. In total, IDA disbursed US\$1.3 billion to these countries in 1988.
- (2) Increased cofinancing of adjustment. Based on a preliminary review of available donor reports, donors had, by the end of 1988, officially allocated

some US\$2.9 billion of their pledges for cofinancing and coordinated financing of specific adjustment operations in eligible countries. Of this amount, SPA donors had signed agreements with recipient governments for some US\$2 billion and disbursed about US\$1 billion. In addition, donors have reported unofficial allocations of about \$2 billion (defined as planned commitments not yet formally communicated to recipient governments). When these unofficial allocations are firmed up, they will go most of the way toward covering the total cofinancing and coordinated financing commitments required for the 19 SPA-eligible countries. To fill the financing gaps as currently estimated, taking into account projections for the ESAF and debt relief, about 75 percent (or about US\$3.8 billion) of the aggregate cofinancing and coordinated financing commitments required for these countries must be disbursed during the three years of the SPA, 1988-90. This target rate of disbursement is less than the three-year disbursement rate on IDA adjustment lending in Africa, and it is no higher than the rate achieved in three years on the direct contributions to the Special Facility for Africa (SFA). These high rates were achieved with untied funds and common procurement procedures. But the target rate is much higher than the disbursement rate on bilateral funds under the Special Joint Financing (SJF) of the SFA, which was only 40 percent over three years. Even though untied, the SJF bilateral funds were administered under a variety of commitment, procurement, and disbursement procedures. The SPA is addressing standardization and simplification of these procedures (see discussions of the new partnership).

Table 5. Some indicative results for mineteen SPA-eligible countries

	1986	1987	:	1988 (preliminary
Exports of goods and all services			:	
(USS billions) a	9.7	8.5	:	11.3
Total gross disbursements of grants and			:	
concessional loans (USS billions)b	5.3	8.1	:	7.2
Reduction in debt service through Paris Club			:	
rescheduling (USS billions)	1.6	1.2	:	1.2
Debt service payments			:	
(US\$ billions)d	2.8	3.1	:	3.7
Imports of goods and noninterest			:	
services (USS billions)	12.6	12.3	:	16.3
Debt service ratio (percent)	29	36	:	33

Sources:

Data for 1986-87 are from the World Debt Tables and the OECD Geographical Distribution of Financial Flows to Developing Countries. Data for 1988 are estimates by World Bank staff.

Notes: Data are based on estimates country-by-country. Figures are presented to help judge trends for each component, rather than to help reconstruct the balance of payments for a given year.

Exports in 1988 include some receipts of private transfers.

b) From all donors. Data for 1988-87 are based on grants reported to the OECD and concessional loan disbursements reported to the World Bank.

Excludes arrears unless for obligations due in respective year. Data for 1988-87 do not include arrears on debt service due in those years that may have been rescheduled in 1988. Excludes any reduction in debt service resulting from cancellation of ODA loans.
 d) IMF charges are estimated. Excludes interest on short-term debt. Payments in 1988

 IMF charges are estimated. Excludes interest on short-term debt. Payments in 1988 exclude estimated arrears carried into 1989.

DAC donors continued to increase their net ODA disbursements (in constant prices and exchange rates) to SPA countries in 1987 at the same rate as in 1986 (7 percent a year). In contrast, total ODA flows to all Sub-Saharan Africa from DAC countries stagnated in real terms in 1987. Thus, the share of these donors' ODA to Sub-Saharan Africa that SPA countries receive rose from 49 percent (1986) to 53 percent (1987). Almost seven-eighths of the 1987 increase in ODA flows to the region went to 19 SPA countries. Five countries (Italy, Canada, United Kingdom, United States, and Japan) allocated a substantially higher volume and a larger share of their aid to SPA countries in 1987. Italy alone accounts for more than a third of this volume increase. In contrast, five other donors (Belgium, Sweden, Norway, France, and Denmark) allocated less real ODA to the SPA countries in 1987; the first four donors also reduced the share of their Sub-Saharan ODA to SPA countries. Although multilateral agencies increased both the amount of ODA that goes to SPA countries, as well as its share of their total ODA flows to the region, the EC moved somewhat contrary to this trend in 1987 with lower real ODA disbursements. (See table 6; other details of donor support are also given in Appendix 1.)

Table 6. Net ODA flows to mineteen SPA-eligible countries, 1985-87

	1985	1986	1987
Net ODA from SPA donors			
(US\$ millions)	3,450	4,896	6,260
Percentage change			
(deflated by import prices)	7	35	17
Share of SPA donors' Sub-Saharan			
ODA to SPA countries (percent)	49	53	58
DAC donors only	. 47	49	53
Multilateral agencies only	56	64	71
Share of increase in Sub-Saharan ODA			
to SPA countries (percent)	24	67	85
DAC donors			
Share (percent)	72	66	63
Percentage change in ODA flows (deflated			
by import prices)	8	25	12
Percentage change in ODA flows (deflated			
by DAC price index)	6	7	7
Multilateral agencies			
Share (percent)	28	34	37
Percentage change in ODA flows (deflated			
by import prices)	6	60	26
Memo items:			
SPA donors' share of total ODA			
to SPA countries (percent)	82	88	95

Source: Appendix 1. Multilaterals include IDA and IMF.

- (3) ESAF. The five ESAF arrangements already approved for Africa are all for SPA eligible countries. About US\$0.2 billion was disbursed in 1988 and about US\$0.7 billion remains to be disbursed to these countries in 1988-90. A number of additional ESAF arrangements are expected to be requested in 1989. See sub-section below on SAF and ESAF for further details.
- (4) Concessional debt relief. In 1988 Canada, Germany, and Japan moved to convert more of their ODA loans to grants, which would benefit several SPA-eligible countries. The United States is also considering allowing repayment in local currencies for certain types of concessional debt, although this might be financed by transfers out of the aid budget. The actual short-run cash savings of these cancellations are probably small. At most, they would save no more than US\$25-50 million a year in debt service for the SPA countries. But the majority of this would likely have been rescheduled through conventional arrangements in any case. In 1986-87, debt service obligations on concessional debt were reduced by about US\$170 million a year through conventional rescheduling by eligible countries. For progress on softening terms of conventional rescheduling, see sub-section below on the Toronto-Berlin consensus.
- (5) Supplemental IDA adjustment credits. Supplemental IDA adjustment credits totaling US\$87 million are being processed in fiscal 1989 for eight SPA eligible countries. The amount of future allocations will depend on IDA's financial results. In support of this initiative, the governments of Norway and Sweden also made grant funding available to help meet IBRD debt service in four African countries in 1989.

The additional donor support provided through the SPA framework has coincided with better economic performance in the recipient countries. Data for 1988 are preliminary but suggest a real growth of GDP of almost 4 percent in the SPA-eligible countries, which, when combined with rising imports (over 5 percent), has resulted in rising per capita consumption. Their GDP growth in 1988 is better than it was in 1985-87 for the SPA-eligible countries and over twice as high as in other Sub-Saharan IDA-eligible countries.

New partnership

The SPA is developing several operational procedures to strengthen aid coordination and donor support for policy reform. These are as important as the extra financial resources it has mobilized. Elements of this new partnership include: (1) designating working-level contacts, (2) identifying donors' particular geographical and operational priorities, (3) exchanging documentation -- including PFPs -- on eligible countries and on proposed adjustment operations, (4) having donors take part in selected appraisal, negotiation and supervision missions, (5) regular biannual multidonor meetings to discuss aggregate progress in implementing the Special Program of Assistance and special meetings on individual countries or issues, (6) recommending standard procurement and disbursement procedures, and (7) faster, fuller monitoring of donors' commitments and disbursements. The first five procedures are now in place; progress on the other two is discussed below.

Cofinancing under the SPA involves close coordination with separate bilateral aid programs. It is therefore more complicated than the Special

Facility for Africa, which provided a common pool of untied assistance administered by IDA under standard procurement and disbursement procedures. The new partnership provides a framework for the donors to agree to untie assistance and to standardize and simplify procurement and disbursement of adjustment financing.

Pooling arrangements. To speed disbursements and increase the efficiency of aid, proposed "notional" pooling arrangements require each participating donor to untie at least 50 percent of its SPA pledge. However, as there are no formal agreements between the World Bank and donors, each donor is responsible for assuring compliance with the untying arrangements. By the end of 1988, eight SPA donors (Japan, Finland, France, Germany, Norway, Sweden, Switzerland, and the United States) indicated they would unite all or at least 50 percent of their pledges for worldwide procurement. Two others (Spain and United Kingdom) agreed to untie at least 50 percent of their pledges for procurement from pool members and Part II countries. Including the African Development Fund and the European Communities, some US\$3.5 to US\$4.0 billion is expected to be untied on a broad basis.

Standardizing procedures. Standardizing and simplifying procurement and disbursement procedures for cofinancing and coordinated financing for adjustment operations can help accelerate disbursements. It would also reduce administrative complexity for recipient governments. In November 1988, the World Bank chaired a technical meeting with 17 donor agencies that recommended (a) standardized competitive bidding procedures for public sector procurement, and (b) standardized procedures for disbursements for donors that use revolving funds and statements of expenditures. Eleven donors have indicated their readiness to apply the recommendations on standardized competitive bidding (Canada, Denmark, Norway, Switzerland, United Kingdom, United States, Japan, France, Netherlands, Germany, and Finland). More donor coordination is needed in applying these recommended procurement and disbursement procedures to country-specific adjustment operations.

Better monitoring. Better monitoring is vital for the SPA's success. The World Bank monitors adjustment progress and financing requirements and resources in eligible countries, which are reported in country Status Reports prepared for each biannual multidonors' meeting. Cofinanciers have agreed to report regularly both aggregate and detailed information on commitments and disbursements of cofinancing and coordinated financing.

SAF, ESAF, and other IMF facilities

Two new facilities have been established by the International Monetary Fund to help low-income countries with protracted external payments problems undertake policy adjustment programs to improve their balance of payments and foster growth over the medium term. 11 Thirty-four of the 44 Sub-Saharan African members are among the low-income countries that are eligible to use the resources of these facilities. Under the structural adjustment facility (SAF), established in March 1986, and the enhanced structural adjustment facility (ESAF), established in December 1987, up to SDR 8.7 billion (US\$11.7 billion) may be made available to these countries on highly concessional terms

-- an annual interest rate of 0.5 percent and a repayment period of five and a half to ten years. 12

Total access to SAF resources is currently 63.5 percent of quota during a three-year arrangement, of which 20 percent of quota is disbursed in the first year, 30 percent in the second year and 13.5 percent in the third year. Maximum access under the ESAF is currently 250 percent of quota (350 percent in exceptional circumstances); ESAF arrangements approved so far involved access of about 150-180 percent of quota.

Arrangements for the SAF or ESAF were approved for 23 of the 34 eligible Sub-Saharan African countries as of end-1988. Commitments under these arrangements totalled SDR 1,615 million (US\$2.2 billion) of which SDR 975 million (US\$1.3 billion) had been committed under the SAF and SDR 640 million (US\$0.9 billion) under the ESAF. This represents about 64 percent of total commitments to all countries under these facilities. Of these amounts, SDR 460 million (US\$0.6 billion) were disbursed under the SAF and SDR 137 million (US\$0.2 billion) under the ESAF. Disbursements to Sub-Saharan African countries under the two facilities combined increased steadily between 1986 and 1988. There are SDR 911 million (US\$1.2 billion) remaining for disbursement under these arrangements. It is expected that that there will be more requests for SAF and ESAF arrangements in 1989.

In 1986-88, in addition to arrangements under the SAF and the ESAF, several Sub-Saharan African countries also received financial support from the Fund under stand-by and extended arrangements. Such arrangements were approved both for countries that received assistance under the SAF and ESAF and for countries that are not eligible for assistance under these facilities (Cameroon, Cote d'Ivoire, and Gabon). Stand-by or extended arrangements were already in place when SAF/ESAF arrangements were requested in four countries and were approved concurrently with first-year SAF/ESAF arrangements in 13 cases. In these cases, the new facilities have supplemented, and not replaced, existing facilities. A few Sub-Saharan African countries also made use of the Compensatory Financing Facility (CFF) during this period (Cameroon, Cote d'Ivoire, Ethiopia, The Gambia, Kenya, Madagascar, Uganda, and Zambia). Disbursements from all Fund facilities to Sub-Saharan African countries amounted to SDR 1,873 million (US\$2.5 billion) during 1986-88. Repayments, however, were higher because of the substantial use of Fund resources in the first half of the 1980s, totalling SDR 2,832 million (US\$3.8 billion). Although net disbursements were negative during 1986-88, the annual amount of net repayments declined by more than half in 1988, following the establishment of the ESAF, to SDR 144 million (US\$0.2 billion), compared to an annual average of SDR 389 million (US\$0.5 billion) in the preceeding two years.

To enhance the Fund's support to member countries, the Compensatory and Contingency Financing Facility (CCFF) was established in August 1988, thereby integrating a contingency financing mechanism into the previously existing CFF. In addition to financing temporary export shortfalls and excesses in cereal import costs, the new facility provides financing to member countries facing other adverse shocks beyond their control, such as interest rate fluctuations or shortfalls in tourist receipts. Financing under the CCFF is currently available to all member countries under the same set of conditions. No Sub-Saharan African country has used the new CCFF.

The concessional terms of the SAF and ESAF have led to a steadily higher proportion of concessional lending by the Fund to Sub-Saharan African countries during the past three years. Commitments under the SAF and the ESAF as a proportion of total financing committed to countries in the region rose steadily from 13 percent in 1986 to 36 percent in 1987 and to 62 percent in 1988. The proportion of Fund credit outstanding accounted for by the SAF and the ESAF rose from just under 1 percent at end-1986 to 5 percent at end-1987 and to 11 percent at end-1988.

Direct resource flows from the Fund to Sub-Saharan African countries remain small relative to the countries' needs. However, the PFP approach involved with the SAF and ESAF is designed as a catalyst to boost financial resources from other multilateral and bilateral sources. The facilities' catalytic role has been enhanced by Paris Club creditors' decision to link reschedulings, on a case-by-case basis, to SAF and ESAF arrangements. In countries that are ineligible for SAF or ESAF resources (such as Cote d'Ivoire and Gabon), the Fund's catalytic role has extended to assistance with debt reschedulings and commercial banks' contributions of new money.

For countries in arrears, the Fund has been active in collaborating with the Bank and other creditors to mobilize external assistance to clear those arrears and to finance imports required for the countries' sustained growth. More generally, Fund staff participate regularly in the international community's activities to raise resources for developing countries, such as donors and Paris Club meetings.

Toronto-Berlin consensus

The Toronto agreement, finalized in Berlin at the 1988 Annual Meetings of the World Bank and the IMF, represents a major breakthrough by creditor governments to reduce the burden of their official debt in low-income, debt-distressed countries, mostly in Sub-Saharan Africa. It is a way to lower debt service payments in the short term with less buildup of nonconcessional debt that must be serviced in the longterm. And it establishes the principle of reducing the stock of official nonconcessional bilateral debt.

Creditors reached consensus on a menu of comparable options to increase the concessionality of commercial debt reschedulings. By the end of 1988, it had been applied by the Paris Club to five Sub-Saharan, SPA-eligible countries (Mali, Niger, Tanzania, Madagascar, and the Central African Republic). In applying the various options, two creditors have chosen to forgive a third of the debt-service obligations on loans covered by the rescheduling arrangements (option A); four creditors have chosen to provide longer maturities of 25 years (option B); and the other Paris Club creditors have chosen to reduce the interest rates charged on the rescheduled debt by up to three and half percentage points (option C). One chose a mix of options depending in part on the type of loan rescheduled. Based on the debt service on nonconcessional debt that the five debtors mentioned above owe to the Paris Club creditors in 1989, which the agreements cover wholly or in part, about half would be covered by option A, a seventh by option B, and a third by option C.

The Toronto-Berlin consensus is a helpful step, and it should be applied in future reschedulings of SPA-eligible countries. But it is not a full solution. First, debt owed to regular Paris Club creditors does not account for all official bilateral nonconcessional debt. The debt owed to Paris Club creditors gives rise to only about a third of the total debt service obligations, and about two thirds of bilateral nonconcessional debt service obligations, of the five SPA countries whose debt was rescheduled under the menu approach in 1988. Second, the additional reduction in debt-service payments, over and above that achieved by conventional rescheduling, is limited in the shortterm to the savings on moratorium interest payments. For these five countries, the additional reduction may be no more than about US\$10 million a year during the grace period, which is roughly 5 percent of their annual residual financing gaps under the SPA. Third, some creditor governments are financing the debt reduction provided for by the menu by transferring funds from their aid budgets to their creditor agencies. This practice reduces the additionality of the Toronto-Berlin consensus.

ENDNOTES

- 1. See Development Committee, <u>Proposals for Enhancing Assistance to Low-Income Countries that Face Exceptional Difficulties</u>. Pamphlet No. 16. Washington, DC. 1988, for a full development of the origins of the debt problems facing these countries and the justification for the SPA. The establishment of the SPA was described in detail in the World Bank's most recent <u>Annual Report 1988</u>.
- 2. The PFP is a three-year comprehensive policy framework paper prepared by the national authorities assisted jointly by of the staffs of the World Bank and the Fund. It identifies the sources of a country's problems and describes the proposed remedies. Because it provides estimates of the associated financing requirements and the role of major aid agencies, it can also serve as a framework for other donors planning additional assistance to the country.
- 3. Sixteen countries were eligible initially: Burundi, Gambia, Ghana, Guinea, Guinea-Bissau, Madagascar, Malawi, Mauritania, Mozambique, Niger, Sao Tome and Principe, Senegal, Tanzania, Togo, Uganda, and Zaire. The Central African Republic was added at the first multidonors' meeting (March 1988). Kenya and Mali were approved on a no objection basis before the second multidonors' meeting (October 1988). Sao Tome and Principe has not yet been accorded a SAF or ESAF; and Mauritania's SAF arrangement lapsed after the second year, while an appropriate subsequent program is being discussed. Eligibility for other countries (such as Benin, Chad, and Somalia) may be proposed at the third multidonors' meeting (April 1989). Other African countries (including Comoros, Equatorial Guinea, Liberia, Sudan, and Zambia) meet the eligibility criteria of poverty and debt distress but are not yet implementing satisfactory reform programs.
- 4. Donors that have made pledges are Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, the African Development Bank, and the European Communities (including the European Investment Bank). The initial Japanese pledge covered only the first two years of the program.
- 5. Not all the cofinancing and coordinated financing represents additional commitments or additional cash inflows for eligible countries. Estimates at the time of pledging suggest, however, that at least half the disbursements of these pledges can be considered additional to what the eligible countries would have received from these donors during 1988-90 in the absence of the SPA. Almost three-fourths of cofinancing and coordinated financing was pledged as grants, with the remainder highly concessional loans.
- 6. The background and rationale of this new component is given in "The Use of IDA Reflows," IDA/R88-106, September 16, 1988. This special allocation is not limited to Sub-Saharan Africa, although 13 of the 17 potentially eligible countries are in the region, and the region received over 85 percent of the fiscal 1989 allocation.

- 7. Burundi, The Gambia, Ghana, and Kenya are not expected to reschedule. For Ghana, the bulk of debt service is owed to multilateral agencies. For Kenya, the possible negative effect of rescheduling on its current access to commercial lending is considered to outweigh gains from rescheduling. The Gambia rescheduled in 1988 but does not expect to seek further relief because of the small amounts involved. Likewise, Burundi is not expected to go to the Paris Club because of the small amounts involved.
- 8. Eleven least developed SPA countries have benefited from cancellation of ODA loans under UNCTAD resolution 165, as reported by creditors. All but four SPA eligible countries have rescheduled with the Paris Club creditors or commercial banks in the 1980s; ten have rescheduled more than once. Conventional terms are generous, usually involving 100 percent consolidation of principal and interest, arrears, and some previously rescheduled debt service. But rescheduling on conventional terms has not always led to viable financial workouts (19 of the Sub-Saharan countries that rescheduled have done so repeatedly during 1980-88). It may not have significantly aided a return to medium-term viability in some cases because it increased nonconcessional debt. The Paris Club capitalized more than US\$3 billion in interest obligations during 1980-87, equal to about a sixth of the average annual new disbursements of nonconcessional loans from the same creditors over the same period.
- 9. In fiscal 1988, total commitments to SPA countries reached US\$ 1.9 billion, with gross disbursements of US\$ 1.4 billion, seven-eights of which were net transfers.
- 10. The eight qualifying countries are Ghana, Kenya, Madagascar, Malawi, Senegal, Tanzania, Togo and Uganda, all of which are eligible for the SPA. Other IDA-only Sub-Saharan countries with IBRD debt are Ethiopia, Liberia, Sierra Leone, Sudan and Zambia.
- 11. Of the 62 countries that are eligible to use the resources of the facilities, China has indicated that, under present circumstances, it does not intend to use the facilities although it remains fully eligible to do so, while India has stated that, in the absence of a fundamental deterioration in its balance of payments, it does not expect to borrow from the facilities.
- 12. SDRs have been converted to US\$ at US\$1.35 per SDR, the exchange rate at end 1988.
- 13. Reschedulings for the Central African Republic, Guinea-Bissau, Mozambique, Niger, Tanzania, and Uganda were linked directly with arrangements under the SAF and ESAF. In addition, reschedulings for Madagascar, Malawi, Mali, and Togo were agreed at the time the countries had both SAF or ESAF arrangements and stand-by arrangements.
- 14. It has subsequently been applied to Senegal and Uganda. On ODA debt, the Toronto-Berlin consensus provides for 25-year maturities at interest rates no higher than those originally contracted. Additional concessionality would result only if the rescheduling increases grace and/or maturities.

Exact coverage is difficult to ascertain in advance because not all debt service owed to Paris Club creditors is eligible for consolidation (for example, debt contracted after the cut off date is excluded (before 1983 in five of the seven applications), some previously rescheduled debt (one-fifth of previous rescheduling agreements) is excluded, and arrears may be rescheduled on less favorable terms). It is also up to the debtor to seek similar terms from other creditors that do formally not participate in the Paris Club.

. *THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 18, 1989

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi MKS

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: Luncheon with Latin America and Caribbean Governors, September 23

Background

The delegations from Latin American and Caribbean Countries will meet in Cancun, Mexico on September 19 and 20. We understand that the Governors of Argentina, Venezuela, Brazil and Costa Rica have asked to be the spokesman for the group at the Annual Meetings. We do not know yet who is likely to be chosen or which one will speak at the Fund and the Bank.

The current economic situation in the Region and some of the questions and issues likely to be raised at the luncheon are summarized below. Some suggested talking points about Private Sector Development and the Environment, and answers to their queries are attached. Before the luncheon we will supplement this briefing, as appropriate, with new information or any additional issues which may have arisen.

The General Setting

Significant developments are taking place in the Region today. On the political side, there has been a profound consolidation of democracy. Ten years ago, more than half of the Region's population lived under military rule; now almost 90 percent live within democratic systems. Open and transparent electoral processes characterize the transitions to new administrations in almost all countries, including Chile.

Fear of increased populism - which seemed imminent a year ago - has subsided as new governments in Jamaica, Venezuela and Argentina have become acutely aware of the need for smaller governments and open economies. Venezuela, the new leadership opted for fundamental restructuring. In Argentina, the new government has announced an ambitious program of stabilization and reform. A Stand-By Agreement with the IMF is being negotiated and will probably be agreed upon before the Annual Meetings. will take some months, however, to see whether the new government will succeed in overcoming vested interest groups' opposition to structural reform and succeed in managing the recovery which eluded the previous administration. In the troubled land of Peru and in Brazil, an increased consensus is emerging in public opinion that populism is not the answer and a reassessment of the role of the state will be key in the agenda of any new government.

In summary, there is a remarkable new sense of pragmatism in the Region, to identify what really works and to learn from experiences of neighbors. A consensus is emerging that appropriate domestic policies are fundamental for the economic recovery.

Economic reforms, however, are not and will not be easy. Middle classes, usually highly subsidized, may resist some of the required changes, particularly cuts in public employment and subsidies. Powerful labor unions and industrialists will resist open trade regimes. The Region will need strong leaders able to explain these reforms to the electorate. Issues of transition and of compensating the poorest groups will become increasingly important.

Recent Economic and Policy Performance

Aggregate growth slackened considerably in the Region during 1988 and this is expected to continue during 1989. This slow growth is largely explained by the negative growth of Argentina, Brazil and Peru and the low growth of Mexico and Venezuela. Important patterns in the degree of the policy effort are emerging and this effort cannot be judged by looking only at aggregate growth performance in a single year. Low growth in Brazil is due to a lack of adjustment; it will continue if no effort is made to undertake such reforms. In Mexico and Venezuela, the slack in economic activity is part of the cost (or the investment) required to stabilize and reform the economy, i.e., it is expected to be a temporary phenomenon leading to increased confidence and renewal of investment. In Mexico, the reform program and the debt reduction agreement have already reduced domestic annual interest rates by 20 percentage points. This is expected to lead to higher investment and growth. Growth in Mexico is already recovering rapidly during this second semester and is expected to accelerate in the near future.

The process of reform has continued in many of the smaller countries. Chile has the highest growth rate of the Region -- 6.5 percent per year for the last four years. Ecuador, Costa Rica, Jamaica, Uruguay and Bolivia have continued their efforts to streamline their public sectors and deregulate their trade regime and financial sector, but growth is still moderate. A major challenge to the adjustment effort of these countries, however, is the possibility of external shocks that may derail the adjustment, shocks stemming not only from a decline in commodity prices but also associated with the economic prospect of their larger neighbors, Brazil and Argentina. This is particularly true for Uruguay and Bolivia.

In contrast to the performance of the above group of countries, the three largest disappointments in the Region are Brazil, Colombia and Peru.

In Brazil the leadership has not come forward with a structural reform program to arrest the economic deterioration. Prospects seem poor for a new short-term agreement with the IMF. Most steps to be taken between now and the end of the year will be stop-gap measures. Elections are scheduled for November. Presidential candidates are already taking positions and the possible winner, according to recent polls, could be Mr. Collor, a centrist taking a clear stance against corruption, excessive regulations and a large government. Mr. Collor calls himself a "free enterprise and free market" candidate. Environmental issues will continue to be a source of friction between Brazil and the industrialized nations. Brazil feels that its efforts to develop, while protecting the environment, are being unfairly attacked by industrialized nations which, they feel, have damaged and are damaging the atmosphere much more than Brazil.

Colombia has followed -- and is expected to follow -- a disciplined fiscal policy and a careful strategy of external indebtedness. This has paid off: Colombia has not experienced the inflation or macroeconomic instability that has characterized other countries in the region. Nevertheless, Colombia has lagged behind in reforms in trade, finance and regulations. With violence and economic rigidity, Colombia has the makings of a stagnant and troubled society.

Peru has slipped into economic breakdown, hyperinflation and a severe depression. Real GDP is expected to decline 15 to 20 percent, following a 9 percent decline in 1988; real wages have fallen 60 percent and unemployment is rising. Support for the center-right coalition's presidential candidate, Mario Vargas Llosa, continues to build rapidly, but the present political, economic and social instability make Peru's future highly uncertain.

The smallest and less resilient countries in Central America and the Caribbean (Guatemala, Nicaragua, El Salvador, Honduras, Haiti, Dominican Republic and other Caribbean countries) present different and difficult challenges. The combination of small economies, fragile institutions, volatile political environments and debt burdens has narrowed the choices. Only significant amounts of concessional finance plus sustained reforms in policies, institutions and human resources, can allow the recovery of development.

The Strategy of Bank Assistance

Bank assistance aims for the recovery of a sustainable growth and an improvement in the distribution of the fruits of development. This will require increases in the levels of private and public investment, the improvement in the efficiency of resource use and improved targetting of social services geared to the very poor.

The Bank will follow a policy of graduated response: a high lending case will be triggered if the country is willing to implement the more difficult reforms overcoming the major constraints to the recovery of growth, including the acceleration of adjustment lending. Under this case we are prepared to sustain momentarily positive transfers to the country. Failure to move on these key reforms will imply a core lending scenario basically on infrastructure and human resources. It will emphasize investments where benefits emerge in the long run and thus are affected less by short-term macroeconomic disequilibria. In short, the better the country's responsiveness the stronger will be the support of the Bank.

In Argentina and Brazil, countries suffering from strong macroeconomic disequilibria and inflation, the first order of business is to reduce instability so as to improve the environment for private investment. Institutional and structural reforms to reduce the public deficit and the excessive size of the state will be the most important goal of our assistance. Only radical fiscal reforms with significant up front actions will trigger a high lending case in these countries. Otherwise the lending program will focus on long-term investment projects in infrastructure and the social sectors. In Peru, because of the large arrears to multilaterals, Bank assistance will have to be preceded by large financial support from bilateral donors.

In countries which have made progress in stabilization and basic structural reforms the focus will be on improving the incentive systems for the private sector and supporting the recovery of public investment. In Mexico, Chile, Costa Rica, Venezuela and Jamaica, the emphasis will be on deepening the reforms in the trade and financial sector regime, eliminating domestic regulations that prevent the mobility of resources and improve agricultural pricing. SECALs will be a key instrument in achieving these results. Chile, Mexico, Bolivia and Uruguay have made important advances on all these fronts and are ahead of the other countries in the overall adjustment program. Here the Bank will be moving gradually from adjustment operations to investment in public infrastructure that can complement the recovery of private investment.

In the smaller and less resilient countries of Central America and the Caribbean, the Bank efforts will have to be complemented by major efforts, particularly concessional financing from other multilateral and bilateral donors. Many of these countries are in arrears with the Bank and major debt workouts will be required. A large part of the Bank's role will be catalytic, not only to support much needed structural reforms but also to support a minimum level of public investment, both in infrastructure and human resources.

The sustainability of growth will require increased attention to issues in the social sector and the environment. Bank assistance in retargetting social services to the very poor has become important and is expected to accelerate in many countries, in particular Jamaica, Colombia, Guatemala, Mexico, Venezuela and Ecuador. In environment, our support through economic work and lending will become important, especially in Brazil and Mexico.

Issues Likely to be Raised

Given recent events, economic performance and the remarkable new sense of pragmatism, the Governors are likely this year to concentrate their remarks and queries on important and practical aspects of development and the Bank's operational work. In that context, the following points are likely to be brought up.

- 1. The policies approved by the Bank and the Fund to support debt service reduction on a case-by-case basis and to make debt service consistent with viable medium-term economic growth are steps in the right direction. Additional steps, however, will be necessary from the creditor countries to overcome the reluctance of private banks to accept large discounts on their claims.
- 2. The new debt strategy focuses exclusively on privately held debt. New initiatives are needed to provide relief to the poorer countries in Latin America with heavy debt to official creditors.
- 3. Net transfer of resources from countries to creditors increased during 1988. Similar trends are estimated for 1989 making the eighth consecutive year in which Latin America and the Caribbean economies had to make a heavy outward transfer of resources. This transfer of resources explains, to a large extent, the sizable drop in investments registered since the beginning of the crisis. For the period 1986-1988, net transfers to foreign long-term creditors have equaled about 4.4 percent of the regional product.

- 4. The Bank's net transfer to the Latin American and Caribbean Region was negative in FY88 and FY89. Clearly, greater efforts is needed to be undertaken to reverse this trend. How soon can we expect a reversal?
- 5. We welcome the Bank's support in dealing with the challenges faced by the global environment. We are encouraged by the growing awareness of the importance of this topic. We do have some concerns however: (a) public access to Bank documents; (b) the Bank's relations with NGOs; (c) the role of conditionality in the lending process; (d) political considerations and unwarranted attempts to intervene in national environmental policies; and (e) fresh initiatives to protect the environment will need additional resources, rather than just redirecting existing funds.
- 6. Bank conditionality is becoming excessive and particularly harsh.

Bank Operations in LAC

In FY89 Bank/IDA lending to LAC countries was US\$5,842 million, compared with US\$5,264 million in FY88. In FY89 sector and adjustment loans were about 53 percent, compared with 40 percent for the previous fiscal year. In FY89 our disbursements declined to US\$3,470 million from US\$4,288 million in FY88. Our net disbursements were US\$941 million, compared with US\$1,789 million in FY88.

Attachment

(Outside region)

cc: Messrs. Qureshi, Hopper, Shihata, Thahane, Ryrie, Kashiwaya, Aguirre-Sacasa, Mrs. Haug

(Inside region)

cc: Messrs. Choksi, Steckhan, Loh, Bottelier, Wessels, Segura, Selowsky, Gregory

SUGGESTED TALKING POINTS

I. PRIVATE SECTOR DEVELOPMENT

1. STRUCTURAL ADJUSTMENT AND THE PRIVATE SECTOR

Most of what we call "structural adjustment" is designed to improve the business climate. Unless the business climate improves as a result, "structural adjustment" will not have succeeded:

Improvements in public finances reduce crowding out and reduce real interest rates.

Adoption of realistic exchange rates increase demand for exports

Trade reform force businesses to become more competitive

Improved supervision and prudential regulation of the financial systems promotes development of wider capital markets including a broader range of equity and debt instruments

Capital market improvements facilitate business financing

Privatization creates new opportunities for business expansion

A friendlier attitude toward foreign investment may attract capital and also help local business through joint ventures

Many LAC countries have in fact improved the enabling environment for private sector activities

Examples:

Chile: first to shift stance of reducing the role of government guiding the economy while at the same time forcing the private sector to become more competitive. Result: best growth performance in the hemisphere since 1983.

Mexico: reduction in government control, increase in competitiveness, notably through trade reform, privatization, liberalization of foreign direct investment.

2. GREATER RELIANCE ON THE PRIVATE SECTOR IS A GLOBAL PHENOMENON

With differing emphasis and speed, economic relationships between the state and private sectors are being redrawn in rich countries as well as poor countries, in the industrial nations and in the less industrial nations, in market economies and in the centrally-planned economies

Aspects of this shift include:

Opening sectors of the economy to the private sector which used to be solely governmental

Privatization of some public enterprises

Rationalizing the system of regulations and incentives facing private sector firms

Modernizing often outdated financial systems

3. THERE IS MUCH EVIDENCE THAT PRIVATE SECTOR FIRMS, IN COMPARISON WITH THOSE IN THE PUBLIC SECTOR, TEND TO BE:

More flexible and responsive to consumer demands and shifting market forces

More efficient in terms of production costs

More innovative technologically, whether considering equipment or management methods

The increased pace of technological change is making the need for flexibility and quick responsiveness more of an imperative, further strengthening the case for greater reliance on the private sector

4. THE WORLD BANK IS ASSISTING IN ALL ASPECTS OF THIS PROCESS

Through SALs and adjustment lending, the World Bank is helping to restore macroeconomic stability and reduce fiscal deficits

Through its economic and sector work, as well as through lending operations, the World Bank is helping Latin American countries design programs to improve the incentive structure, rationalize the regulatory, process, to privatize some government industries and utilities, and to ease the entry and exit of private firms into new areas of economic activity and competition

Thorough financial sector adjustment loans and lending through financial institutions, the World Bank in helping countries modernize and improve the performance of their financial institutions

Through IFC and MIGA, the World Bank is helping to promote private investment and to reduce the non-commercial risks facing foreign investors

II ENVIRONMENT

1. DEVELOPMENT AND ENVIRONMENTAL PROTECTION ARE NOT MUTUALLY EXCLUSIVE

Our challenge is to demonstrate that sustained development and environmental protection are not mutually exclusive, but mutually reenforcing. Countries with stable and strong policies and institutions should be able to promote economic development and reduce poverty while protecting their natural resource base and the health and well-being of its citizens.

2. PEOPLE EXPECT US TO DO SOMETHING ABOUT ENVIRONMENT

The Development Committee has instructed the Bank to become more active on the environmental front.

The public expects the Bank to pay more attention to the environmental consequences of its lending policies.

Public awareness of environmental issues is demonstrated by a survey conducted in 14 countries for the United Nations Environment Programme and released in May 1989. Majorities of the public in all 14 countries, and of the leaders in every country except Senegal, believed that their governments and "international organizations like the United Nations" should have a major role in protecting the environment.

3. WE ARE TRYING TO DO OUR SHARE

We approved more than 100 projects with significant environmental components this past fiscal year.

In LAC, more than 50 projects recently approved or under preparation contain significant environmental components.

We expect to lend \$1.3 billion for free-standing environmental projects over the next three years. And, with funds provided by Japan, we created a \$5 million Environmental Technical Assistance Program.

4. RESULTS CAN BE VISIBLE

The air and water in Sao Paulo, Brazil, are getting cleaner as a result of projects assisted by the Bank to control industrial pollution and promote the use of cleaner fuels, such as alcohol.

Mexico is undertaking a major "clean air" initiative for Mexico City with the assistance of the World Bank.

5. A TIME FOR CONTROL, A TIME FOR PREVENTION

Control is important, but in many environmental aspects prevention before damage may be the only course. We simply do not know enough about the tropical rainforests. Tribal peoples may help us unfold their mysteries.

New technologies (like land use planning with satellite imagery, agro-ecological zoning) and new policies (like fiscal incentives to promote rational rather than predatory land use) promise to provide models for development of these areas based upon their real rather than perceived potentialities.

6. IN BRAZIL, THINGS ARE MOVING IN THE RIGHT DIRECTION

We have to praise the actions taken by Brazil, where a formidable legal and institutional framework was created that may transform Brazil in a model of sound environmental policy and performance.

The newly formed Brazilian environmental agency, IBAMA (pronounced EE-BUM-A), although still lacking in sufficient resources and personnel, its staff victimized by acts of violences and threats against their lives by special interest groups, has demonstrated an extraordinary will to enforce the laws in the Brazilian frontier.

7. NOBODY HAS THE MONOPOLY OF VIRTUE

As far as the industrialized countries and some of their advocacy groups are concerned, humility is in short supply.

Industrialized countries are overwhelming responsible for global environmental damage.

But developing nations should not repeat the industrialized nations' mistakes. Environmental problems are bad now and may be worsening in some countries.

Clearly our assistance is not enough.

Let us work together to encourage the industrialized countries to face up to their responsibilities, both in controlling the pollution they cause, and in helping finance the cost of environmental protection in developing countries. I seek your views on how best to address these issues.

SUGGESTED ANSWERS

1. The Bank's net transfers to the Latin American and Caribbean countries were negative in FYs 88 and 89. Clearly, greater efforts will need to be undertaken to reverse this trend. How soon can we expect a reversal?

First I would like to have us all agree that the real concept of financial contribution should be net disbursements, not transfers. Net disbursements measures the increase of our exposure; positive transfers require that net disbursements must be large enough to compensate for interest payments. But such a requirement is not only difficult for the Bank; at times, it may not be desirable for the country either.

Positive transfers would imply a growth of World Bank debt higher than the rate of interest. This is a tall order. Positive transfers 50% higher than interest charges means the debt owed to the Bank will grow by more than 10% per year in current dollars. This is higher than GDP growth of most countries. It is obviously not sustainable.

We can have temporary situations of positive transfers, particularly when lending accelerates as a result of adjustment operations. We have had periods of positive transfers with many countries and we are and will be having them in the future. But they will be temporary.

Second, permit me to remind you that countries such as Argentina, Chile, Mexico and Uruguay have received positive net transfers from the Bank over the past five years. In other countries such as Brazil, where we have not been active in sector adjustment lending, or as in Colombia, where adjustment lending has been very modest, net transfers have become negative in the last two or three fiscal years, but we hope that the situation might change in the near future. Permit me also to remind you that undisbursed balance of existing loans in Brazil and Colombia stand among the highest on the Region which as of August 31st totalled more than US\$16 billion. In this respect a greater effort should be made both by the Bank and the country to accelerate project implementation and disbursements.

Of course there is also Venezuela where we just renewed our lending and where we expect substantial net transfers in the coming years.

Finally, there is also the situation of the countries in arrears such as Peru, Panama and Nicaragua in which our efforts to renew our lending and disbursements have been limited because of the economic situation and existing statutory limitations.

It is also important to realize that the sharp depreciation of the dollar during part of the 80's had a strong adverse effect on the volume of transfers. We do not expect his effect to be present in the near future. Bank conditionality is becoming too excessive and particularly harsh.

Our financial assistance can contribute to long-run development only if it complements domestic policies that increase the capability of the country to service this extra debt. Otherwise countries will be worse off. None of us want that future debt servicing cut unduly on imports or national savings. To achieve these objectives countries have to improve domestic policies sharply to encourage exports, savings and the efficiency of resource use, both in the private and public sector. There is no room for waste any more. This is particularly true for Latin America, which already starts with high volume of indebtedness. Consequently, our lending must be accompanied by improved policies so that the extra lending contributes more to growth than to debt accumulation.

Latin America and the Caribbean Region

LAC's Share in IBRD and IDA Operations

10-51	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89
Bank Totals			•							
IBRD										
Operations Approved *	144	140	150	136	129	131	131	127	118	119
Loan Amounts	7,644.0	8,809.0	10,330.0	11,136.0	11,947.3	11,356.3	13,178.8	14,188.2	14,762.0	16,443.
Disbursements	4,363.5	5,063.1	6,325.4	6,817.4	8,580.2	8,616.6	8,263.5	11,383.0	11,635.6	11,310.2
Net Disbursements	2,932.2	3,454.1	4,602.0	4,772.3	6,059.5	5,706.2	4,432.1	5,656.0	2,385.2	1,920.
IDA										
Operations Approved *	103	106	97	107	106	105	97	108	99	106
Loan Amounts	3,838.0	3,482.0	2,686.0	3,341.0	3,575.0	3,028.1	3,139.9	3,485.9	4,458.7	4,933.6
Disbursements	1,411.1	1,878.0	2,067.1	2,595.9	2,524.1	2,490.9	3,256.2	3,088.0	3,747.8	3,806.5
Net Disbursements	1,373.8	1,839.4	2,015.6	2,513.3	2,438.6	2,388.3	3,122.7	3,318.4	3,592.4	3,613.2
LAC Totals		11								
IBRD										
Operations Approved *	46	49	46	38	34	38	41	47	34	38
Loan Amounts	2,595.0	3,119.0	2,962.9	3,396.6	3,001.5	3,652.3	4,701.2	4,994.6	5,152.0	5,703.7
Disbursements	1,414.2	1,654.6	1,825.8	2,064.3	2,916.5	3,184.6	3,090.3	4,598.2	4,214.4	3,314.8
Net Disbursements	981.6	1,149.2	1,245.6	1,346.9	1,983.2	2,046.5	1,612.1	2,462.5	1,721.7	792.8
IDA										
Operations Approved *	3	4	4	4	2	3	2	11	3	5
Loan Amounts	89.0	34.2	25.0	63.0	24.1	45.9	70.0	157.4	112.0	138.4
Disbursements	35.3	68.1	57.1	39.8	35.2	32.0	31.5	80.6	73.2	154.9
Net Disbursements	33.7	66.2	53.9	36.1	30.9	26.7	25.7	74.5	66.9	148.4
LAC's Share (%)		98	98							
IBRD										
Operations Approved *	31.9	35.0	30.7	27.9	26.4	29.0	31.3	37.0	28.8	31.9
Loan Amounts	33.9	35.4	28.7	30.5	25.1	32.2	35.7	35.2	34.9	34.7
Disbursements	32.4	32.7	28.9	30.3	34.0	37.0	37.4	40.4	36.2	29.3
Net Disbursements	33.5	33.3	27.1	28.2	32.7	35.9	36.4	43.5	72.2	41.3
IDA										
Operations Approved *	2.9	3.8	4.1	3.7	1.9	2.9	2.1	10.2	3.0	4.7
Loan Amounts	2.3	1.0	0.9	1.9	0.7	1.5	2.2	4.5	2.5	2.8
Disbursements	2.5	3.6	2.8	1.5	1.4	1.3	1.0	2.6	2.0	4.1
	2.5	3.6	2.7	1.4	1.3	1.1	8.0	2.2	1.9	4.1
Net Disbursements										
Net Disbursements IBRD & IDA										
	19.8	21.5	20.2	17.3	15.3	17.4	18.9	24.7	17.1	19.
IBRD & IDA	19.8 23.4	21.5 25.7	20.2 23.0	17.3 23.9	15.3 19.5	17.4 25.7	18.9 29.2	24.7 29.1	17.1 27.4	
IBRD & IDA Operations Approved *										19.1 27.3 23.0

^{*} Number of Loans and/or Credits.

Latin America and the Caribbean Region

IBRD/IDA Lending at Market Value *

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89
Loan Disbursements										
IBRD	1,414.2	1,654.6	1,825.8	2,064.3	2,916.5	3,184.6	3,090.3	4,598.2	4,214.4	3,314.8
IDA	35.3	68.1	57.1	39.8	35.2	32.0	31.5	80.6	73.2	154.9
Total	1,449.5	1,722.7	1,882.9	2,104.1	2,951.6	3,216.6	3,121.8	4,678.8	4,287.6	3,469.6
Repayment of Principal										
IBRD	432.6	505.5	580.2	717.4	933.3	1,138.0	1,478.2	2,135.8	2,492.7	2,521.9
IDA	1.5	1.9	3.2	3.7	4.3	5.3	5.8	6.1	6.3	6.5
Total	434.2	507.3	583.4	721.1	937.6	1,143.3	1,484.0	2,141.9	2,499.0	2,528.4
Net Disbursements										
IBRD	981.6	1,149.2	1,245.6	1,346.9	1,983.2	2,046.5	1,612.1	2,462.5	1,721.7	792.8
IDA	33.7	66.2	53.9	36.1	30.9	26.7	25.7	74.5	66.9	148.4
Total	1,015.3	1,215.4	1,299.5	1,383.0	2,014.1	2,073.3	1,637.9	2,537.0	1,788.6	941.2
Interest Payments										
IBRD	591.2	663.9	705.1	802.2	957.8	1,015.4	1,408.0	1,919.5	2,175.9	2,165.6
IDA	2.7	3.1	3.5	3.9	4.2	4.4	4.8	5.2	6.1	5.9
Total	594.0	667.0	708.6	806.1	962.1	1,019.8	1,412.8	1,924.7	2,182.0	2,171.5
Net Transfers										
IBRD	390.3	485.3	540.5	544.8	1,025.3	1,032.9	204.1	543.0	(454.1)	(1,372.8)
IDA	31.0	63.1	50.4	32.2	26.7	22.3	20.9	69.3	60.8	142.5
Total	421.3	548.4	590.9	576.9	1,052.0	1,055.3	225.1	612.3	(393.3)	(1,230.3)

^{*} This table includes all borrowers. Totals may not add due to rounding. Market Value refers to the valuation methodology according to which all currency amounts are translated into their U.S. Dollar equivalents at the exchange rates on the dates of transactions.

Latin America and the Caribbean Regional Office Sector Breakdown of Lending Operations *

(US\$ Million)

	FY	83	FY	/84	F	785	F	786	F	Y87	F	/88	P	789	FYE	3-60
	Amount	Percent	Amount	Percent												
Agriculture	1029.6	29.8	856.9	26.3	442.5	12.0	1,955.0	41.0	1,195.0	23.2	1,404.8	26.7	161.8	2.8	4,716.8	22.4
Education	59.8	1.7	88.0	2.2	195.8	5.3	10.0	0.2	84.9	1.6	88.3	1.7	140.0	2.4	323.2	1.5
Energy	81.2	2.3			310.0	8.4	131.0	2.7	104.4	2.0			94.0	1.8	329.4	1.8
Industrial Development & Finance	873.5	25.2	372.0	12.3	535.0	14.5	322.4	6.8	1,300.0	25.2	1,370.0	26.0	2,129.3	36.4	5,121.7	24.4
inudstry	304.5	8.8	9.5	0.3	4.0	0.1			55.0	1.1	665.0	12.6	50.0	0.9	770.0	3.7
Non-Sector Specific	60.2	1.7	60.2	2.0	435.0	11.8	705.0	14.8	1,050.1	20.4	277.0	5.3	988'0	11.8	2,724.1	13.0
Population	33.5	1.0	57.5	1.9			96.0	2.0	10.0	0.2	109.0	2.1	99.0	1.7	314.0	1.5
Power	89.4	2.6	841.1	27.6	833.7	22.5	819.2	17.2	423.8	8.2	423.0	8.0	736.0	12.6	2,402.0	11.4
Technical Assistance	10.2	0.3	9.5	0.3	29.5	0.8	47.5	1.0	15.5	0.3			50.7	0.9	113.7	0.5
Telecommunications			30	1.0									45.0	0.8	45.0	0.2
Transportation	447.3	12.9	501.1	16.6	662.0	17.9	140.6	2.9	524.3	10.2	210.6	4.0	149.3	2.6	1,024.8	4.9
Urban	46.2	1.3	191.2	6.3	86.9	2.3	369.5	7.7	325.0	6.3	464.0	8.8	675.0	11.6	1,833.5	8.7
Water Supply and Sewrage	424.2	12.3	26.6	0.9	163.8	4.4	175.0	3.7	64.0	1.2	252.3	4.8	320.0	5.5	811.3	3.9
Other													500.0	8.6	500.0	2.4
Total	3,459.8	100.0	3,025.8	100.0	3,698.2	100.0	4,771.2	100.0	5,152.0	100.0	5,264.0	100.0	5,842.1	100.0	21,029.3	100.0

Note: Count = IBRD Projects + IDA Projects

* MIS data as of August 24, 1989

MMekan (LACCA) \ Sector.Xls 31 August 1989

Latin America and the Caribbean Region FY83-89 Lending By Type of Lending

(US \$ Million)

	FY	83	F	/84	F	/85	F	/86	F	Y87	F	/08	F	/89	FY	3-00
	Amount	Percent	Amount	Percent												
Structural Adjustment Loan	60.2	1.7	60.2	2.0	135.0	3.7	250.0	5.2	433.0	8.4	250.0	4.7	692.0	11.8	1,625.0	7.7
Sector Adjustment Loan	405.3	11.7	655.0	21.6	360.0	9.7	1,255.0	26.3	1,107.1	21.5	1,865.0	35.4	2,403.0	41.1	6,630.1	31.5
Financial Informediary Loan	1198.2	34.6	419.1	13.9	591.0	16.0	692.4	14.5	1,214.0	23.6	1,099.3	20.9	198.3	3.4	3,202.0	15.2
Specific investment Loan	777.9	22.5	867.0	28.7	1,745.7	47.2	1,442.3	30.2	1,829.9	35.5	1,037.7	19.7	2,435.1	41.7	8,745.0	32.1
Sector investment & Main, Loan	982.6	28.4	1,001.5	33.1	829.0	22.4	562.0	11.8	400.3	7.6	772.0	14.7	35.0	0.6	1,769.3	8.4
Technical Assistance Loan	35.4	1.0	22.8	0.8	37.5	1.0	69.5	1.5	47.7	0.9			50,7	0.9	167.9	0.8
Emergency Reconstruction Loan							500.0	10.5	120.0	2.3	240.0	4.6	30.0	0.5	890.0	4.2
Total	3,459.6	100.0	3,025.6	100.0	3,698.2	100.0	4,771.2	100.0	5,152.0	100.0	5,264.0	100.0	5,842.1	100.0	21,029.3	100.0

MMekan (LACCA) \ LendType.Xis 6 September 1989

IBRD/IDA: REGIONAL BREAKDOWN OF LENDING

(In Current US\$ Millions) As of end August 1989

		FY	85-89	FY90-9	91 PROGRAM
		Amount	% of Total	Amount	% of Total
AFRICA	I BRD I DA	4546.3 8048.5	6.5 42.3	2818.3 5523.8	7.8 47.7
	Total	12594.7	14.2	8342.1	17.5
ASIA	I BRD I DA	25534.3 9232.7	36.6 48.5	11969.3 5241.6	33.2 45.2
	Total	34767.1	39.1	17210.9	36.1
EMENA	I BRD I DA	15574.0 1241.1	22.3 6.5	9387.7 526.0	26.0 4.5
	Total	16815.0	18.9	9913.7	20.8
LAC	IBRD IDA	24203.8 523.7	34.6 2.7	11885.0 300.0	33.0 2.6
	Total	24727.4	27.8	12185.0	25.6
TOTAL	IBRD IDA	69858.3 19046.0	100.0 100.0	36060.3 11591.4	100.0 100.0
	Total	88904.3	100.0	47651.6	100.0

MMcCarthy: Caucus2 mm September 13, 1989

Office of the Chief Administrator LAC Region

Latin America and the Caribbean IBRD/IDA Lending

	Population	Lending Co.	mmitment	Lending Cor	nmitment
	(000)	(US \$ M	illion)	Per Ca	pita
	1987	FY86-89	FY90-91	FY86-89	FY90-91
Total LAC	405,614	21,029.3	12,185.0	51.85	30.04
Brazil	141,235	4,948.0	3,290.0	35.03	23.29
Mexico	81,950	6,842.0	3,885.5	83.49	47.41
Argentina	31,436	3,022.5	1,346.0	96.15	42.82
Colombia	29,498	1,525.6	653.2	51.72	22.14
Peru	20,730	13.5	0.0	0.65	0.00
Venezuela	18,271	755.0	1,050.0	41.32	57.47
Chile	12,537	1,422.5	534.0	113.46	42.59
Ecuador	9,898	617.5	305.0	62.39	30.81
Guatemala	8,438	194.5	100.0	23.05	11.85
Bolivia	6,796	350.4	125.7	51.56	18.50
Dominican Republic	6,716	170.8	65.0	25.43	9.68
El Salvador	4,973	65.0	0.0	13.07	0.00
Haiti	6,164	107.0	91.3	17.36	14.81
Honduras	4,677	116.8	100.0	24.97	21.38
Paraguay	3,922	0.0	10.0	0.00	2.55
Nicaragua	3,501	0.0	0.0	0.00	0.00
Uruguay	3,014	400.2	242.0	132.78	80.29
Costa Rica	2,710	126.0	103.0	46.49	38.01
Jamaica	2,351	175.3	100.0	74.56	42.54
Panama	2,272	100.0	0.0	44.01	0.00
Caribbean Total	4,525	76.7	184.3	16.95	40.73
Guyana	807	7.0	68.0	8.67	84.26
Barbados	254	14.0	0.0	55.12	0.00
Bahamas	241	20.0	0.0	82.99	0.00
Belize	175	20.9	0.0	119.43	0.00
St. Lucia	143	0.0	7.5	0.00	52.45
St. Vincent and The Grenadines	112	2.8	0.0	25.00	0.00
Grenada	100	0.0	0.0	0.00	0.00
Dominica	80	6.0	0.0	75.00	0.00
Other*	2,613	6.0	108.8	2.30	41.64

^{*} Population: Trinidad & Tobago (1,217), Suriname(411), Guadeloupe (336), Martinique (329), Netherland Antilles (191), Antigua and Barbuda (82), and St. Christopher and Nevis (47).

Latin America and the Caribbean Region

Undisbursed Balance

Country Name	Undisbrsed Asof 7/31/89
Mexico	4,959.9
Brazil	4,740.8
Argentina	1,816.1
Colombia	1,358.3
Venezuela	755.0
Chile	661.7
Uruguay	362.2
Peru	360.6
Ecuador	277.6
Guatemala	219.9
Dominican Republic	170.5
Bolivia	139.5
Costa Rica	125.8
Jamaica	120.4
Panama	93.6
Haiti	74.0
Honduras	73.8
El Salvador	56.9
Paraguay	56.0
Bahamas	19.1
Barbados	16.6
Belize	14.9
Guyana	13.2
Caribbean Region	7.6
St. Vincent	4.6
Dominica	3.6
Grenada	2.8
Nicaragua	.0
TOTAL	16,505.0

		FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Argentina													
Commitme	ents	237.0	68.0	400.0	100.0	0.0	180.0	544.5	965.0	626.5	886.5	805.0	3,202.5
Disbursem		55.6	88.4	114.6	67.7	73.6	130.9	150.9	506.2	875.0	474.1	399.9	2,137.1
Adjustn		0.0	0.0	0.0	0.0	0.0	0.0	0.0	175.1	668.7	167.1	0.0	1,010.9
Project		55.6	88.4	114.6	67.7	73.6	130.9	150.9	331.1	206.3	307.0	399.9	1,126.2
Repaymen		33.0	43.1	52.4	54.6	57.8	67.1	81.9	161.9	149.1	274.1	240.9	734.1
Net Disbur		22.7	45.2	62.3	13.1	15.8	63.8	69.0	344.3	725.8	200.0	159.0	1,403.0
Interest & 0		35.2	37.3	42.8	43.9	46.6	45.0	56.3	89.5	115.6	81.7	205.7	388.1
Net Transfe		(12.6)	7.9	19.5	(30.8)	(30.8)	18.8	12.7	254.8	610.3	118.3	(46.7)	1,014.8
The Bahama	<u>s</u>												
Commitme	ents		7.0	5.8	0.0	0.0	0.0	0.0	10.0	0.0	10.0	12.8	20.0
Disbursem	ents	0.8	2.8	2.0	4.6	1.1	2.9	1.8	3.8	1.5	1.0	11.2	10.9
Adjustn		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects		0.8	2.8	2.0	4.6	1.1	2.9	1.8	3.8	1.5	1.0	11.2	10.9
Repaymen		0.6	0.6	0.6	0.6	0.5	0.8	2.1	1.9	2.0	2.0	2.8	8.8
Net Disbur		0.2	2.2	1.4	4.0	0.5	2.2	(0.4)	1.9	(0.5)	(1.0)	8.3	2.1
Interest & 0		0.2	0.2	0.3	0.5	0.8	0.8	1.3	1.5	1.9	1.7	2.0	7.2
Net Transfe		0.0	2.0	1.1	3.5	(0.3)	1.4	(1.6)	0.3	(2.5)	(2.7)	6.3	(5.1)
Barbados													
Commitme	ents	10.0	6.0	2.7	10.5	14.0	0.0	10.0	4.0	0.0	0.0	43.2	14.0
Disbursem	ents	0.2	2.2	3.4	11.6	7.2	8.6	6.7	3.6	4.6	2.9	24.6	26.3
Adjustn	nent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	s	0.2	2.2	3.4	11.6	7.2	8.6	6.7	3.6	4.6	2.9	24.6	26.3
Repaymen	its			0.0	1.3	2.1	2.5	3.0	4.8	6.6	5.9	3.4	22.8
Net Disbur	sements	0.2	2.2	3.4	10.3	5.0	6.1	3.7	(1.3)	(2.1)	(3.0)	21.2	3.5
Interest & 0	Charges	0.1	0.2	0.4	0.9	1.3	1.7	2.6	3.5	3.7	3.3	3.0	14.7
Net Transfe	ers	0.1	2.0	3.0	9.4	3.7	4.4	1.1	(4.8)	(5.8)	(6.3)	18.2	(11.3)
Belize													
Commitme	ents			0.0	5.3	0.0	0.0	0.0	7.5	13.4	0.0	5.3	20.9
Disbursem	ents			0.0	0.0	1.4	2.3	1.4	0.0	1.0	4.9	1.4	9.6
Adjustn	nent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project		0.0	0.0	0.0	0.0	1.4	2.3	1.4	0.0	1.0	4.9	1.4	9.6
Repaymen	its			0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.7	0.0	1.3
Net Disbur	sements	0.0	0.0	0.0	0.0	1.4	2.3	1.4	0.0	0.3	4.2	1.4	8.2
Interest & 0	Charges			0.0	0.0	0.1	0.2	0.5	0.6	0.7	0.7	0.1	2.7
Net Transfe		0.0	0.0	0.0	0.0	1.3	2.1	1.0	(0.6)	(0.4)	3.5	1.3	5.6
Bolivia													
Commitme	ents	75.0		0.0	0.0	0.0	0.0	70.0	75.4	112.0	83.0	75.0	340.4
Disbursem		28.7	82.4	42.4	19.6	11.5	16.8	9.6	25.4	44.9	136.3	184.6	233.0
Adjustn		0.0	48.7	1.3	0.0	0.0	0.0	0.0	17.6	25.3	88.8	50.0	131.7
Project		28.7	33.7	41.1	19.6	11.5	16.8	9.6	7.8	19.6	47.5	134.6	101.3
Repaymen		3.2	3.8	5.9	9.3	8.2	14.3	16.6	19.7	22.0	22.4	30.4	95.0
						3.3	2.5		5.7	22.9			
Net Disbur		25.5	78.6	36.5	10.3	13.1		(7.0)			113.9	154.2	138.0
Interest & C		9.8	13.5	15.3	16.4		17.0	19.6	21.9	20.5	18.1	68.3	97.1
Net Transfe	ers	15.7	65.1	21.1	(6.2)	(9.8)	(14.5)	(26.6)	(16.2)	2.4	95.8	85.9	40.9

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Brazil												
Commitments	695.0	844.0	722.1	1,457.5	1,604.3	1,523.0	1,620.0	1,261.5	1,359.5	717.0	5,322.9	6,481.0
Disbursements	318.0	377.6	471.5	763.8	1,405.3	1,054.5	716.3	1,616.2	1,031.4	832.1	3,336.2	5,250.4
Adjustment	0.0	0.0	0.0	0.0	448.2	202.8	2.8	300.1	20.0	174.5	448.2	700.2
Projects	318.0	377.6	471.5	763.8	957.1	851.7	713.5	1,316.1	1,011.4	657.6	2,888.0	4,550.2
Repayments	99.3	120.0	173.0	214.3	321.2	359.7	496.6	759.6	963.0	936.7	927.9	3,515.6
Net Disbursements	218.8	257.6	298.5	549.5	1,084.0	694.8	219.7	856.6	68.4	(104.6)	2,408.3	1,734.8
Interest & Charges	170.0	184.7	192.3	208.7	318.4	353.1	477.5	635.2	740.5	676.3	1,074.1	2,882.6
Net Transfers	48.7	72.9	106.2	340.8	765.6	341.7	(257.8)	221.4	(672.2)	(780.9)	1,334.2	(1,147.8)
Caribbean Development	Bank											
Commitments	30.0		0.0	7.0	0.0	0.0	0.0	6.0	0.0	0.0	37.0	6.0
Disbursements	4.4	5.9	13.5	6.2	1.6	6.6	1.5	2.5	3.2	1.6	31.6	15.3
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	4.4	5.9	13.5	6.2	1.6	6.6	1.5	2.5	3.2	1.6	31.6	15.3
Repayments	0.3	0.4	0.6	0.2	0.4	0.6	2.6	2.4	2.2	2.8	1.9	10.6
Net Disbursements	4.1	5.5	12.9	6.0	1.2	5.9	(1.1)	0.1	1.0	(1.2)	29.8	4.7
Interest & Charges	0.5	0.9	1.2	1.9	2.2	2.1	2.6	3.1	3.2	3.0	6.6	14.0
Net Transfers	3.6	4.6	11.7	4.1	(1.0)	3.8	(3.7)	(3.0)	(2.2)	(4.2)	23.2	(9.3)
Chile												
Commitments	38.0	78.0	0.0	128.0	0.0	287.0	456.0	366.5	250.0	350.0	244.0	1,709.5
Disbursements	8.3	24.5	32.6	22.4	34.5	67.7	355.5	325.9	269.7	275.9	122.2	1,294.6
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	250.0	250.0	125.0	125.0	0.0	750.0
Projects	8.3	24.5	32.6	22.4	34.5	67.7	105.5	75.9	144.7	150.9	122.2	544.6
Repayments	8.8	13.2	12.2	13.9	13.0	22.4	21.3	33.6	44.3	87.5	61.1	209.1
Net Disbursements	(0.6)	11.3	20.4	8.5	21.5	45.3	334.2	292.2	225.4	188.4	61.1	1,085.5
Interest & Charges	12.7	16.8	14.8	16.2	16.9	15.9	32.8	71.4	102.0	111.8	77.2	333.8
Net Transfers	(13.2)	(5.5)	5.6	(7.6)	4.6	29.4	301.5	220.8	123.4	76.6	(16.1)	751.6
Colombia												
Commitments	518.0	550.0	291.3	78.4	462.2	707.5	700.3	180.3	465.0	180.0	1,899.9	2,233.1
Disbursements	185.9	238.4	248.4	315.1	285.8	590.7	654.3	394.9	547.4	241.6	1,273.5	2,429.0
Adjustment	0.0	0.0	0.0	0.0	0.0	50.0	298.4	56.7	292.5	0.0	0.0	697.6
Projects	185.9	238.4	248.4	315.1	285.8	540.7	355.9	338.2	254.9	241.6	1,273.5	1,731.4
Repayments	72.0	80.9	78.6	106.9	132.7	159.1	200.8	279.1	338.4	324.2	471.1	1,301.5
Net Disbursements	113.9	157.5	169.9	208.2	153.0	431.7	453.6	115.8	209.0	(82.6)	802.4	1,127.4
Interest & Charges	74.0	83.9	88.9	105.6	117.6	126.8	197.6	278.7	331.3	314.4	470.2	1,248.8
Net Transfers	39.8	73.5	80.9	102.6	35.4	304.9	256.0	(162.9)	(122.3)	(397.0)	332.3	(121.4)
Costa Rica												
Commitments	30.0	29.0	0.0	25.2	0.0	83.5	0.0	26.0	0.0	100.0	84.2	209.5
Disbursements	26.2	25.2	20.0	23.7	35.9	41.4	101.8	13.7	6.6	4.5	130.9	168.0
Adjustment	0.0	0.0	0.0	0.0	4.2	20.8	79.9	0.4	0.0	0.0	4.2	101.1
Projects	26.2	25.2	20.0	23.7	31.7	20.6	21.9	13.3	6.6	4.5	126.7	66.9
Repayments	8.7	9.6	9.7	12.7	13.8	22.4	21.1	31.6	34.1	34.4	54.5	143.6
Net Disbursements	17.5	15.6	10.2	11.0	22.2	19.1	80.7	(18.0)	(27.5)	(29.9)	76.4	24.5
Interest & Charges	13.9	15.6	15.3	15.4	14.4	16.5	19.3	34.2	36.7	32.5	74.7	139.3
Net Transfers	3.5	0.0	(5.0)	(4.5)	7.7	2.5	61.4	(52.2)	(64.2)	(62.4)	1.7	(114.9)

		FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Dominica													
Commit	ments			5.0	0.0	0.0	0.0	0.0	6.0	0.0	0.0	5.0	6.0
Disburse	ements			0.0	0.8	1.8	1.5	0.3	0.0	1.4	1.2	2.6	4.4
Adiu	stment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.9	0.0	2.0
Proje		0.0	0.0	0.0	0.8	1.8	1.5	0.3	0.0	0.3	0.3	2.6	2.4
Repaym	ents			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Dist	oursements	0.0	0.0	0.0	0.8	1.8	0.0	0.0	0.0	1.1	1.2	2.6	2.3
Interest	& Charges			0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.2
Net Tran	nsfers	0.0	0.0	0.0	0.8	1.8	0.0	0.0	0.0	1.0	1.2	2.6	2.1
Dominican	Republic												
Commit	ments	120.0	24.0	25.4	7.1	3.8	5.8	35.8	0.0	105.0	30.0	180.3	176.6
Disburse	ements	5.7	58.0	28.7	25.7	22.2	16.6	15.2	13.9	20.6	20.9	140.3	87.2
Adjus	stment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proje	ects	5.7	58.0	28.7	25.7	22.2	16.6	15.2	13.9	20.6	20.9	140.3	87.2
Repaym	ents	2.2	2.3	2.9	3.1	7.0	11.4	13.3	18.8	21.4	21.3	17.5	86.3
Net Disb	oursements	3.5	55.7	25.8	22.6	15.2	5.3	1.8	(5.0)	(0.9)	(0.4)	122.9	0.9
Interest	& Charges	2.9	4.6	7.0	9.6	10.5	10.3	12.4	15.7	17.1	16.8	34.6	72.3
Net Tran	nsfers	0.7	51.1	18.8	13.0	4.7	(5.0)	(10.6)	(20.7)	(17.9)	(17.2)	88.3	(71.4)
Ecuador													
Committe	ments	106.0	20.0	228.7	40.6	0.0	6.0	253.5	159.0	160.0	45.0	395.3	623.5
Disburse	ements	32.2	45.7	47.0	26.4	81.7	42.0	83.4	176.7	190.9	50.0	233.0	543.0
Adju	stment	0.0	0.0	0.0	0.0	0.0	0.0	39.1	27.7	81.7	0.0	0.0	148.5
Proje	ects	32.2	45.7	47.0	26.4	81.7	42.0	44.3	149.0	109.2	50.0	233.0	394.5
Repaym	ents	9.1	13.8	13.6	19.8	17.8	21.8	30.0	40.4	46.5	51.2	74.0	189.8
Net Dist	xursements	23.1	31.9	33.4	6.7	63.9	20.2	53.5	136.3	144.4	(1.2)	159.0	353.2
Interest	& Charges	7.8	9.9	11.9	15.0	17.7	20.4	26.2	40.0	45.3	68.5	62.3	200.4
Net Tran	nsfers	15.3	22.1	21.5	(8.3)	46.1	(0.2)	27.3	96.4	99.1	(69.7)	96.7	152.8
El Salvado	<u>r</u>												
Commit	ments			0.0	0.0	0.0	0.0	0.0	0.0	65.0	0.0	0.0	65.0
Disburse	ements	20.0	15.5	11.6	10.8	6.8	13.0	9.2	2.4	5.4	11.1	64.7	41.1
Adju	stment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proje	ects	20.0	15.5	11.6	10.8	6.8	13.0	9.2	2.4	5.4	11.1	64.7	41.1
Repaym	ients	4.0	4.4	4.0	4.9	6.5	6.6	8.5	8.3	9.4	9.0	23.8	41.7
Net Dist	oursements	16.0	11.1	7.6	5.8	0.3	6.4	0.7	(5.9)	(4.0)	2.1	40.9	(0.7)
interest	& Charges	6.8	7.5	6.3	8.5	7.2	7.9	9.4	11.3	11.1	8.7	36.3	48.4
Net Tran	nsfers	9.2	3.6	1.4	(2.7)	(6.8)	(1.5)	(8.7)	(17.2)	(15.1)	(6.6)	4.6	(49.0)
Grenada													
Commit	ments			0.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	5.0
Disburse	ements			0.0	0.0	0.0	0.0	1.3	1.0	0.7	0.4	0.0	3.4
Adju	stment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0,0	0.0	0.0	0,0	0.0
Proje	ects	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.0	0.7	0.4	0.0	3.4
Repaym	nents			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Dist	oursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4
Interest	& Charges			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Net Tran	nsfers	0.0	0,0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.3

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Guatemala												
Commitments	17.0		0.0	18.5	50.0	44.6	81.0	23.0	29.0	61.5	85.5	239.1
Disbursements	49.3	29.1	32.5	20.1	16.6	35.7	24.5	16.3	7.1	8.9	147.7	92.6
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	49.3	29.1	32.5	20.1	16.6	35.7	24.5	16.3	7.1	8.9	147.7	92.6
Repayments	4.3	4.9	7.6	10.6	13.5	11.5	16.4	18.8	27.4	27.3	40.9	101.4
Net Disbursements	45.0	24.2	24.9	9.6	3.2	24.2	8.1	(2.5)	(20.3)	(18.4)	106.8	(8.8)
Interest & Charges	10.4	10.5	10.4	14.3	13.0	10.6	16.8	22.1	25.0	20.7	58.5	95.2
Net Transfers	34.7	13.6	14.4	(4.7)	(9.8)	13.6	(8.7)	(24.5)	(45.2)	(39.1)	48.3	(104.0)
Guyana												
Commitments		31.5	2.0	0.0	0.0	8.8	0.0	7.0	0.0	0.0	33.5	15.8
Disbursements	4.3	6.6	17.0	14.6	6.6	2.6	4.1	4.4	0.0	0.0	49.1	11.0
Adjustment	0.0	0.0	10.8	9.8	0.6	0.0	0.0	0.0	0.0	0.0	21.2	0.0
Projects	4.3	6.6	6.2	4.8	6.0	2.6	4.1	4.4	0.0	0.0	27.9	11.0
Repayments	0.9	1.0	0.8	0.7	1.4	1.8	3.5	0.2	0.2	0.9	4.8	6.5
Net Disbursements	3.4	5.6	16.2	13.8	5.2	0.8	0.6	4.2	(0.2)	(0.9)	44.3	4.5
Interest & Charges	3.1	2.9	2.8	3.6	5.0	4.1	5.5	0.3	0.3	0.7	17.5	11.0
Net Transfers	0.3	2.7	13.4	10.2	0.3	(3.3)	(5.0)	3.8	(0.5)	(1.6)	26.8	(6.5)
Haiti												
Commitments		21.2	18.0	56.0	19.1	32.1	0.0	63.0	0.0	44.0	1142	120.1
Disbursements	11.3	13.7	15.1	25.4	26.8	22.8	0.0	63.0 50.3	0.0 23.0	44.0 13.7	114.3	139.1
						100000000000000000000000000000000000000	22.7				92.3	132.6
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	11.3	13.7	15.1	25.4	26.8	22.8	22.7	50.3	23.0	13.7	92.3	132.6
Repayments	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.6	0.7	0.8	0.0	2.6
Net Disbursements	11.3 0.4	13.7	15.1 0.6	25.4	26.8	22.7	22.3	49.7	22.3	12.9	92.3	129.9
Interest & Charges Net Transfers	10.9	0.5 13.2	14.5	0.8 24.5	1.3 25.5	1.2 21.6	1.7 20.6	2.0 47.7	2.5 19.8	2.0 10.9	3.5 88.8	9.4 120.6
Honduras												
Commitments	153.0	28.0	30.0	45.0	19.6	6.9	37.4	4.4	0.0	75.0	275.6	123.7
Disbursements	31.7	44.3	46.1	54.7	65.6	48.4	42.2	32.4	34.5	27.9	242.3	185.4
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.0	2.8
Projects	31.7	44.3	46.1	54.7	65.6	48.4	42.2	32.4	34.5	25.1	242.3	182.6
Repayments	4.5	5.3	6.9	7.2	9.3	12.7	15.0	28.7	26.8	20.6	33.3	103.7
Net Disbursements	27.2	39.0	39.2	47.4	56.3	35.6	27.2	3.8	7.7	7.3	209.1	81.6
Interest & Charges Net Transfers	11.8 15.4	13.6 25.4	14.5 24.7	16.7 30.7	20.3 36.0	21.6 14.0	29.5 (2.3)	38.3 (34.5)	36.6 (28.9)	22.0 (14.7)	76.9 132.2	148.1 (66.4)
Jamaica							0.00000					
Commitments	- paracatar.	44.5	133.1	120.4	44.6	64.0	0.0	104.0	26.3	45.0	342.6	239.3
Disbursements	35.7	52.6	99.2	90.9	49.6	75.4	23.7	52.8	63.9	55.0	328.1	270.8
Adjustment	0.0	23.8	74.0	65.4	30.4	55.3	0.0	30.0	30.0	30.0	193.6	145.3
Projects	35.7	28.8	25.2	25.5	19.2	20.1	23.7	22.8	33.9	25.0	134.5	125.5
Repayments	6.1	8.7	8.2	12,7	14.2	19.3	22.1	38.7	47.4	49.5	50.0	177.0
Net Disbursements	29.7	43.9	91.0	78.1	35.4	56.0	1.6	14.0	16.6	5.5	278.1	93.7
Interest & Charges	11.4	13.4	15.8	24.2	28.1	31.2	40.6	53.6	60.1	57.1	92.8	242.5
Net Transfers	18.2	30.6	75.2	53.9	7.3	24.8	(39.0)	(39.5)	(43.5)	(51.6)	185.3	(148.8)

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Mexico												
Commitments	300.0	1,081.0	657.3	887.9	576.3	598.0	904.0	1,678.0	2,030.0	2,230.0	3,502.5	7,440.0
Disbursements	401.1	424.6	436.7	389.7	528.9	787.9	656.2	1,209.0	1,006.1	1,260.6	2,181.0	4,919.9
Adjustment	0.0	0.0	0.0	0.0	0.9	83.3	90.5	599.5	275.6	606.2	0.9	1,655.1
Projects	401.1	424.6	436.7	389.7	528.0	704.6	565.7	609.5	730.5	654.4	2,180.1	3,264.8
Repayments	100.1	110.1	117.4	161.8	215.3	290.5	375.6	507.0	645.8	647.2	704.9	2,466.0
Net Disbursements	301.0	314.5	319.3	227.8	313.5	497.5	280.7	702.0	360.3	613.4	1,476.1	2,453.9
Interest & Charges	152.9	172.4	186.9	212.5	226.4	234.3	326.4	459.7	551.5	566.2	951.1	2,138.2
Net Transfers	148.0	142.1	132.3	15.4	87.1	263.1	(45.8)	242.3	(191.2)	47.2	524.9	315.7
Nicaragua												
Commitments	52.0	38.7	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	106.7	0.0
Disbursements	17.5	43.2	26.2	24.7	27.1	6.4	0.1	0.0	0.0	0.0	138.7	6.5
Adjustment	0.0	0.0	0.6	1.1	1.3	1.1	0.0	0.0	0.0	0.0	3.0	1.1
Projects	17.5	43.2	25.6	23.6	25.8	5.3	0.1	0.0	0.0	0.0	135.7	5.4
Repayments	5.6	5.6	6.0	6.2	5.8	2.7	0.0	0.0	0.0	0.0	29.3	2.7
Net Disbursements	11.9	37.5	20.3	18.5	21.3	3.7	0.1	0.0	0.0	0.0	109.5	3.7
Interest & Charges	9.8	8.3	9.2	8.2	9.4	1.9	0.0	0.5	0.0	0.0	44.9	2.4
Net Transfers	2.1	29.2	11.1	10.3	11.9	1.8	0.1	(0.5)	0.0	0.0	64.6	1.3
^o anama												
Commitments	58.0	45.5	24.4	85.0	74.2	51.0	0.0	100.0	0.0	0.0	287.1	151.0
Disbursements	16.1	31.0	39.0	39.7	94.1	27.5	29.5	77.3	10.0	0.0	219.8	144.4
Adjustment	0.0	0.0	0.0	0.0	59.7	0.5	0.0	49.8	0.0	0.0	59.7	50.3
Projects	16.1	31.0	39.0	39.7	34.4	27.0	29.5	27.5	10.0	0.0	160.1	94.1
Repayments	6.5	7.0	9.2	12.8	14.9	16.7	27.0	33.9	21.7	(0.4)	50.4	98.9
Net Disbursements	9.6	23.9	29.8	26.9	79.2	10.8	2.5	43.5	(11.7)	0.4	169.4	45.5
Interest & Charges	10.4	12.0	12.7	15.0	17.5	21.0	26.5	33.3	19.3	0.1	67.7	100.2
Net Transfers	(0.8)	11.9	17.1	11.8	61.7	(10.2)	(24.0)	10.1	(31.0)	0.3	101.7	(54.7
Paraguay												
Commitments	36.0	58.8	99.4	40.0	33.3	0.0	0.0	0.0	0.0	0.0	267.5	0.0
Disbursements	31.7	30.1	46.0	34.8	39.9	58.8	24.9	25.0	15.8	20.2	182.4	144.7
Adjustment	0.0	0.0	0.0	0.0	0.5	1.0	0.1	0.2	0.1	0.0	0.5	1.4
Projects	31.7	30.1	46.0	34.8	39.4	57.8	24.8	24.8	15.7	20.2	181.9	143.3
Repayments	1,6	2.5	3.7	7.8	9.7	15.6	19.5	29.9	42.1	39.5	25.3	146.5
Net Disbursements	30.1	27.5	42.3	27.0	30.1	43.2	5.4	(4.9)	(26.3)	(19.3)	157.1	(1.8
Interest & Charges	5.0	6.8	8.4	12.7	12.9	14.7	22.1	28.4	31.3	26.5	45.9	123.0
Net Transfers	25.1	20.7	33.9	14.3	17.2	28.5	(16.7)	(33.3)	(57.6)	(45.8)	111.2	(124.8
eru .												
Commitments	111.0	148.0	286.7	302.2	122.5	31.0	13.5	0.0	0.0	0.0	970.4	44.5
Disbursements	153.4	70.5	75.9	86.9	104.2	127.0	122.5	109.5	18.9	0.0	490.9	378.0
Adjustment	109.6	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	115.0	0.0
Projects	43.8	65.1	75.9	86.9	104.2	127.0	122.5	109.5	18.9	0.0	375.9	378.0
Repayments	14.6	19.3	22.0	23.3	32.7	41.4	53.6	65.0	0.0	0.0	112.0	159.9
Net Disbursements	138.9	51.2	53.9	63.6	71.4	85.7	68.9	44.6	18.9	0.0	378.9	218.1
Interest & Charges	19.4	28.4	30.9	37.3	44.9	45.8	65.8	55.7	0.2	2.1	160.8	169.6
Net Transfers	119.4	22.8	23.0	26.3	26.5	39.9	3.1	(11.2)	18.8	(2.1)	218.1	48.5

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-
. Vincent												
Commitments			0.0	0.0	5.0	0.0	0.0	0.0	0.0	2.8	5.0	2
Disbursements			0.0	0.0	0.0	0.7	0.9	0.5	0.4	1.4	0.0	3
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	c
Projects	0.0	0.0	0.0	0.0	0.0	0.7	0.9	0.5	0.4	1.4	0.0	
Repayments			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(
Net Disbursements	0.0	0.0	0.0	0.0	0.0	0.7	0.9	0.5	0.4	1.4	0.0	
Interest & Charges			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Transfers	0.0	0.0	0.0	0.0	0.0	0.7	0.9	0.5	0.4	1.4	0.0	;
inidad & Tobago												
Commitments			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 .	1
Disbursements	3.5	4.6	1.4	1.3	0.5	0.0	0.0	0.0	0.0	0.0	11.3	
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0)
Projects	3.5	4.6	1.4	1.3	0.5	0.0	0.0	0.0	0.0	0.0	11.3	
Repayments	5.8	6.8	4.2	4.7	4.6	4.0	5.3	6.5	7.1	6.1	26.2	2
Net Disbursements	(2.3)	(2.2)	(2.8)	(3.3)	(4.1)	(4.0)	(5.3)	(6.5)	(7.1)	(6.1)	(14.8)	(25
Interest & Charges	4.8	4.8	4.1	3.7	3.3	2.7	2.7	3.0	2.8	2.2	20.6	1
Net Transfers	(7.1)	(7.0)	(6.9)	(7.0)	(7.4)	(6.7)	(8.0)	(9.5)	(9.8)	(8.3)	(35.5)	(42
uguay												
Commitments	98.0	30.0	40.0	45.0	0.0	64.0	45.2	105.4	22.3	226.5	213.0	463
Disbursements	7.4	6.0	11.9	23.0	20.6	55.7	61.2	15.2	103.9	23.2	68.9	25
Adjustment	0.0	0.0	0.0	0.0	0.0	30.0	30.0	0.0	80.0	0.0	0.0	14
Projects	7.4	6.0	11.9	23.0	20.6	25.7	31.2	15.2	23.9	23.2	68.9	11
Repayments	9.5	10.1	9.0	8.5	16.1	18.8	21.7	25.3	30.3	32.7	53.2	12
Net Disbursements	(2.1)	(4.1)	2.9	14.6	4.5	36.9	39.6	(10.1)	73.6	(9.5)	15.7	13
interest & Charges	6.9	7.1	7.0	7.1	8.7	8.9	13.2	18.9	21.9	23.7	36.7	8
Net Transfers	(9.0)	(11.2)	(4.1)	7.4	(4.2)	28.0	26.3	(29.0)	51.6	(33.2)	(21.0)	4
enezuela												
Commitments			0.0	0,0	0.0	0.0	0.0	0.0	0.0	755.0	0.0	75
Disbursements	0.5		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1
Projects	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	
Repayments	33.6	33.9	21.9	20.4	18.5	19.7	26.2	25.1	10.1	5.4	128.3	8
Net Disbursements	(33.1)	(33.9)	(21.9)	(20.4)	(18.5)	(19.7)	(26.2)	(25.1)	(10.1)	(5.4)	(127.8)	(8
Interest & Charges	13.8	11.4	7.9	7.1	4.6	3.9	3.6	2.0	0.9	0.3	44.8	1
Net Transfers	(46.9)	(45.2)	(29.8)	(27.6)	(23.1)	(23.6)	(29.7)	(27.1)	(11.0)	(5.7)	(172.6)	(9

(US \$ Million)

	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY80-84	FY85-89
Totals												
Commitments	2,684.0	3,153.2	2,987.9	3,459.6	3,028.9	3,698.2	4,771.2	5,152.0	5,264.0	5,842.1	15,313.6	24,727.5
Disbursements	1,449.5	1,722.7	1,882.9	2,104.1	2,950.7	3,244.4	3,121.8	4,678.9	4,287.6	3,469.6	10,109.9	18,802.3
Adjustment	109.6	77.9	86.7	76.3	545.8	444.8	790.8	1,507.1	1,600.0	1,195.3	896.3	5,538.0
Projects	1,339.9	1,644.8	1,796.2	2,027.8	2,404.9	2,799.6	2,331.0	3,171.8	2,687.6	2,274.1	9,213.6	13,264.1
Repayments	434.2	507.3	570.5	718.5	937.0	1,143.3	1,484.0	2,141.9	2,499.0	2,601.8	3,167.5	9,869.9
Net Disbursements	1,015.3	1,215.4	1,312.4	1,385.6	2,013.6	2,101.0	1,637.9	2,537.0	1,788.6	867.8	6,942.3	8,932.3
Interest & Charges	594.0	667.0	707.8	805.9	962.0	1,019.7	1,412.8	1,924.7	2,181.9	2,061.1	3,736.7	8,600.2
Net Transfers	421.3	548.4	604.8	579.7	1,051.6	1,081.4	225.1	612.3	(393.3)	(1,193.3)	3,205.6	332.2

Note: Totals may not add due to rounding.

Fiscal Year is July 1 to June 30.

Adjustment lending includes quick disbursing Structural Adjustment Loans, Program Loans and Sector Adjustment Loans.
Projects includes project loans and all other policy related loans which are not so quick disbursing and projects which are central to the adjustment process but may not have a policy component as the central objective.

Market Value Version:

MMekan (LACCA) \ PC Excel \ ADis7789.XLS 12 September 1989

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Fring to Mr. Conald.

DATE: September 21, 1989

0: Mr. Moeen A. Qureshi

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: China and Taiwan

URGENT AND CONFIDENTIAL

DECLASSIFIED

WBG ARCHIVES

I have just had a visit from Mr. Wang Liansheng to communicate to me the following:

The Chinese believe that some official contacts are going on between the World Bank and Taiwan on possible funding by Taiwan for Bank/IDA operations. I was also told that the Government of the People's Republic of China takes a dim view of such contacts and that under no circumstances would it agree to any official arrangement between the Bank and Taiwan on any sort of funding including contributions to IDA. It is the fear of the Government of China that the Taiwanese may be working on introducing an ADB-type of arrangement in order to regain reentry into the Bank Group. Such an arrangement is not acceptable to Beijing. I thought I should bring this to your attention.

Cleared in substance and cc: Mr. Karaoasmanoglu

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 20, 1989

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi

EXTENSION: 73665

SUBJECT: Draft OD on Environmental Assessment

- 1. Attached for your approval is the above directive, revised to take account of the discussion in the Board seminar of September 8. The main changes proposed are as follows:
 - (a) the paragraph on building borrower commitment to and capacity for the EA process is strengthened (para. 5 of transmittal memorandum);
 - (b) the fact that this is a new directive which needs to be monitored carefully, and the intention to submit a report to the EDs during FY91 on its operation, and to subsequently make any changes necessary, are noted (para. 6 of transmittal memorandum);
 - (c) the need for flexibility is highlighted in para. 1 of text;
 - (d) the expectation that EAs will reduce the need for environmental conditionality is noted (para. 3(b) of text);
 - (e) the expectation that integrating EAs into project preparation will reduce delays is noted (para. 4(b) of text);
 - (f) the paragraph on "Consideration of Global Issues" is presented more positively (para. 10 of text);
 - (g) the notification of environmental issues in the Monthly Operational Summary is highlighted and strengthened (para. 20 of text);
 - (h) environmental issues are to be explained briefly in the Memorandum and Recommendations of the President as well as the SAR (para. 26 of text);
 - (i) the paragraph on supervision is strengthened (para. 27 of text); and
 - (j) the Appendix to an EA report should specify how views were obtained from affected groups and NGOs (Annex A1, Appendices).

2. The Environment Department had previously intended to include this directive in the "environmental kit" to be distributed to delegates and visitors at the Annual Meetings. In view of the Board seminar discussion in this regard, we now propose instead that the directive be distributed at the Annual Meetings (a) to the approximately 50 environmental NGOs which will be attending a workshop with the Environment Department on September 28; and (b) to any other NGOs which request it from Bank staff. This would be consistent with the Bank's policy of making ODs available upon request to interested parties (the main environmental NGOs have been requesting this directive in draft for some time, and have been assured that they would receive it upon finalization), but would not replicate the deliberate wide distribution of the recent OD on NGOs, for example.

CC: Members of the President's Council
 Jaycox (AFRVP); Karaosmanoglu (ASIVP); Thalwitz (EMNVP);
 Husain (LACVP); Rajagopalan (PREVP); Piddington (ENVDR);
 Vergin (OPNSV); Lee (CODDR); Dubey (EAS); Goldberg, Scott,
 Ofosu-Amaah (LEG);

Operational Directive 4.00, Annex A: Environmental Assessment

- 1. Attached for insertion in your new Operational Manual is OD 4.00, Annex A, Environmental Assessment. This annex provides guidance to staff on the Bank's policies and procedures for conducting environmental assessments (EAs) of proposed projects. It standardizes and formalizes a process which is already taking place for projects with major environmental impacts.
- This annex makes the following points:
 - (a) EA is a flexible procedure, whose scope, depth, and analytical techniques vary by project (para. 1);
 - (b) The purpose of EA is to ensure environmentally sustainable development through the timely incorporation of environmental issues into project design (para. 3);
 - (c) EA is part of project preparation and is therefore the borrower's responsibility (para. 4);
 - (d) Regional and sectoral EAs are important tools for identifying environmental issues, and can reduce the work subsequently needed on project-specific EAs (paras. 6-8);
 - (e) Alternatives to EA that focus on a narrower range of issues are acceptable for projects with limited potential environmental impacts (para. 9);
 - (f) In the EA process, inter-agency coordination and the involvement of affected groups and local NGOs are important (paras. 11-12);
 - (g) The EA process should be used to strengthen environmental capability in the country (para. 13);
 - (h) In special cases, environmental advisory panels may be needed (para. 15);
 - (i) In the Bank, the task manager (TM), supported by the Regional environment division (RED), assists and monitors the implementation of the EA process (para.16);
 - (j) The initial executive project summary (IEPS) meeting confirms the type, timing and main issues of environmental analysis (para. 19);

- (k) The type, timing and main issues of environmental analysis should be noted and updated in the Monthly Operational Summary (para. 20); and
- The final EA report should normally be available to the Bank prior to appraisal (para. 22), and its recommendations reviewed and incorporated into the Board documents (paras. 25-26).
- 3. All projects which reach the IEPS stage after October 15, 1989, are fully subject to this directive. Projects currently in advanced stages of preparation are not normally subject to this annex. For other projects already past the IEPS stage, the TM and the RED should, by December 31, 1989, review the status and recommend how to achieve the objectives of this annex within the existing time and resource constraints.
- 4. A systematic training program for Bank staff on the application of this directive is currently being designed under the leadership of the Environment Department.
- 5. Achieving the objectives of this directive will require close collaboration between the Bank and its borrowers, and strengthening of borrower capacity for carrying out, analyzing, and incorporating the recommendations of EAs. Country departments should therefore discuss with borrowers how to achieve smooth and efficient implementation of this annex through, e.g., EA seminars for implementing agencies' management, training programs for their environmental staff, and preparation of EA manuals (by sector) and procedures for the country.
- 6. As this is a new directive, progress and problems in its implementation will need to be monitored carefully. A paper reviewing the experience will be prepared for Board discussion during FY91, and this directive will subsequently be modified as appropriate based upon the lessons learned.
- 7. Questions on this annex should be referred to the Director, Environment Department.

Operational Directive 4.00, Annex A: Environmental Assessment

Introduction

- 1. This annex outlines Bank policy and procedures for the environmental assessment (EA) of Bank investment lending operations, 1 and related types of environmental analysis. EA is a flexible procedure, which can vary in breadth, depth, and type of analysis, depending on the project. It may be carried out at one point in time, stretched over a year to account for seasonal variations, or done in discrete stages.
- 2. For the purpose of this annex, environmental assessment covers also project impact on health, cultural property, and tribal people, and the environmental impact of project-induced resettlement.² EAs utilize the findings of country environmental studies and action plans which cover nationwide issues, the overall policy framework, legislation, and institutional capabilities in the country.

Purpose and Nature of EA

3. The purpose of EA is to ensure that the development options under consideration are environmentally sound and sustainable, and that any environmental consequences are recognized early in the project cycle and

^{1/} References to the Bank include IBRD and IDA. Investment lending covers specific and sector investments including rehabilitation, loans through financial intermediaries, and the investment component of hybrid loans. Sector and structural adjustment loans are not covered by this annex, but are subject to the general policies in OMS 2.36, Environmental Aspects of Bank Work (to be reissued as OD 4.00, Environmental Policies). IFC is developing similar internal procedures for environmental review, which reflect the special circumstances of its work. MIGA will cooperate with the Bank to ensure that the objectives of the directive are met in MIGA's operations to the extent possible, bearing in mind MIGA's special circumstances.

^{2/} For Bank policies and procedures see (a) OPN 11.03, Management of Cultural Property in Bank-Financed Projects, to be reissued as OD 4.50, Cultural Property; (b) OMS 2.34, Tribal People in Bank-Financed Projects, to be reissued as OD 4.40, Tribal People; and (c) OMS 2.33, Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects, and OPN 10.08, Operations Issues in the Treatment of Involuntary Resettlement in Bank-Financed Projects, to be reissued as OD 4.30, Involuntary Resettlement.

taken into account in project design. EAs identify ways of improving projects environmentally, and minimizing, mitigating, or compensating for adverse impacts. By alerting project designers, implementing agencies, and borrower and Bank staff to issues early, EAs (a) enable them to address environmental issues in a timely and practical fashion, (b) reduce the need for project conditionality, because appropriate steps can be taken in advance or incorporated into project design, and (c) help avoid costs and delays due to unanticipated environmental problems. EAs also provide a formal mechanism to help ensure inter-agency coordination and to address the concerns of potentially affected parties and local NGOs. In addition, they can play a major role in building environmental capability in the country.

4. Like economic, financial, institutional, and engineering analyses, EA is part of project preparation, and is the borrower's responsibility. Close integration of EA with these other aspects of project preparation is essential to ensure that (a) environmental considerations are given due weight in project selection, siting, and design decisions, and (b) carrying out EAs does not unduly delay project processing.

Types of Environmental Analysis

Project-Specific EAs

Project-specific EAs are used to analyze specific investment projects (e.g., dams, factories, irrigation systems) with significant environmental issues. The level of detail and sophistication of analysis should be commensurate with the magnitude of expected impacts. A projectspecific EA should normally cover: (a) existing environmental "baseline" conditions; (b) potential environmental impacts, direct and indirect.3 including opportunities for environmental enhancement; (c) systematic environmental comparison of alternative investments, sites, technologies, and designs; (d) preventive, mitigatory, and compensatory measures, generally in the form of an action plan; (e) environmental management and training, and (f) monitoring. To the extent possible, capital and recurrent costs, environmental staffing, training and monitoring requirements, and the benefits of proposed alternatives and mitigation measures should be quantified. Annex Al gives a sample outline for a project-specific EA report, and Annex A2 is a checklist of specific issues to be covered where relevant.

^{3/} Indirect impacts are the induced consequences of the project which occur later or in another part of the environment, e.g., if a river is channelled or dammed, its capacity for self-purification may be reduced and the original aquatic ecosystem damaged or destroyed.

Regional and Sectoral EAs

- 6. Regional EAs are used where a number of significant development activities are planned for a reasonably localized area and may have cumulative impacts. In such cases, they are generally more efficient than a series of project-specific EAs, and may identify issues that the latter might overlook (e.g., interaction among effluents, or competition for water or land). Regional EAs compare alternative development scenarios, and recommend environmentally sustainable growth rates, land use patterns and policies. The study area is normally defined on a physical and/or biological basis (e.g., airshed, habitat type, river basin) and may sometimes extend across national boundaries; however, regional EAs with an institutional focus might follow administrative boundaries instead.
- 7. Sectoral EAs are used for the overall design of sector investment programs. They are particularly suitable for reviewing (a) sector investment alternatives; (b) the effect of sector policy changes; (c) institutional capacities and requirements for environmental review, implementation and monitoring at the sectoral level; and (d) cumulative impacts of many relatively small, similar investments which do not merit individual project-specific EAs.
- 8. In some cases, regional or sectoral EAs cover all the normal requirements of project-specific EAs. More often, the latter are still needed for major investments (see para. 14 concerning sector investment loans), but the regional or sectoral EAs will have identified the relevant issues, collected much of the data, and, in general, greatly reduced the work needed in the project-specific EAs.

Alternatives to EAs

- 9. Alternative approaches that focus on a narrower range of issues are acceptable for many types of projects, especially smaller ones and those not in environmentally sensitive areas. These approaches may be more effective in integrating environmental concerns into the borrower's planning process. Such alternative approaches include:
 - (a) integrated pest management programs for many agricultural projects which do not involve major irrigation or land development;
 - (b) specific environmental design criteria and pollution standards for small- or medium-scale industrial plants; and
 - (c) specific environmental design criteria and construction supervision programs for small-scale rural works projects.

Other examples of projects for which alternative approaches are generally acceptable are listed in Annex A3, para. 3, under "Category B."

Consideration of Global Issues

10. A number of specialized agencies--inside and outside the U.N. system--carry out scientific investigations of global environmental issues (ozone depletion, global warming, hazardous wastes, etc.). The Bank keeps itself fully informed of findings, primarily through its Office of the Principal Adviser, Science and Technology, and draws upon prevailing views in guiding the development of its own environmental, economic, and sectoral policies, with a view to minimizing possible adverse impacts on global systems such as the atmosphere and oceans. While EAs should collect or refer to the relevant data, the Bank does not normally expect global environmental issues to require separate analysis in project-specific EAs. Such issues should, however, be addressed where relevant in policy and sector work.

Project Institutional Aspects

Inter-Agency Coordination

11. Because environmental issues generally involve national, regional, and local government agencies, and cover a broad range of responsibilities (wildlife, health, water and land use, tourism, etc.), coordination among government agencies is crucial. This is best achieved through inter-agency meetings at key points in the EA cycle. The first meeting, normally held soon after a decision is made to prepare an EA, identifies the issues, types of analysis required, sources of relevant expertise, responsibilities and schedule for the EA, and mitigating measures to be considered. Another meeting should normally be held when the EA report is completed and submitted for final government review.

Involvement of Affected Groups and Nongovernmental Organizations

12. The Bank expects the borrower to take the views of affected groups and local nongovernmental organizations (NGOs)⁴ fully into account in project design and implementation, and in particular in the preparation of EAs. This is important in order to understand both the nature and extent of any social or environmental impact and the acceptability of proposed mitigation measures. An approach which has proven effective in many countries is to expand the initial inter-agency meeting (para. 11) into a "forum" or "scoping session" with representatives of affected groups and relevant NGOs. Similar consultations after the EA report is completed are also a valuable way to obtain feedback on the report and to increase community cooperation in implementing the recommendations.

^{4/} See OD 14.70, Involving Nongovernmental Organizations in Bank-Supported Activities for the Bank's overall approach to NGOs.

Strengthening Environmental Capabilities

The ultimate success of EA depends upon the development of 13. environmental capability and understanding in the agencies concerned. Projects with major potential impacts normally require the establishment or strengthening of in-house environmental units for the project (located or represented on site), the implementing agency and the ministry. Involvement of these units throughout the EA process (a) ensures that the agency's/ministry's knowledge and perspective are taken into account in the EA; (b) provides on-the-job training for the staff; and (c) provides continuity for the implementation of the EA's recommendations. Such projects normally need to include an institutional development and training component for such units. In addition, to help develop EA capability in the country, the Bank should (a) encourage the use of local expertise in EA preparation (in consortia with international consultants, where appropriate), and (b) help arrange EA training courses for local specialist staff and consultants to attend.

Sector and Financial Intermediary Lending

14. For sector investment loans and loans through financial intermediaries, subproject details may not be known at the time of project appraisal. In such cases, the project implementing institutions will need to screen subprojects (see para. 18) and carry out environmental analyses consistent with this directive. To ensure that this can be done, the Bank should appraise the implementing agencies' capabilities for EA, and strengthen them where necessary. The appraisal mission should also indicate the proper division of responsibility for preparing and reviewing EAs between the ultimate borrower, the financial intermediary or sector agency, and the agencies responsible for environmental regulation.

Environmental Advisory Panels

15. For major projects with serious and multi-dimensional environmental concerns, the Bank should explore with the borrower whether the latter needs to engage an advisory panel of independent, internationally recognized, environmental specialists, to review and advise on, inter alia, the TOR and findings of the EA, the implementation of its recommendations, and the development of environmental capacity in the implementing agency/ministry. Such panel should meet at least once a year until the project is operating routinely and environmental issues have been addressed satisfactorily.⁵

^{5/} See OD 4.00 Annex B, Environmental Policy for Dam and Reservoir Projects, para. 18, for more detail on the selection and functions of the panel.

EA Procedures

Overview

- Though EA preparation is the responsibility of the borrower, the task manager (TM) in the Bank assists and monitors the EA process, with support mainly from the Regional environment division (RED). The borrower and the Bank should agree as early as possible on the selection of consultants or borrower staff to prepare the EA, and the EA procedures, schedule, and outline. Major steps in the EA process normally include: (a) screening, (b) decisions based on the initial executive project summary (IEPS), (c) notification to the Board through the Monthly Operational Summary (MOS), (d) preparation of terms of reference (TORs) for the EA, (e) EA preparation, (f) EA review and incorporation of environmental measures into the project, (g) supervision, and (h) ex-post evaluation.
- 17. Since project and country conditions, national legislation, and institutional experience vary among borrowers, both the borrower and the Bank must exercise judgement in using these procedures to design and implement projects which are both environmentally and economically sound, and consistent with the environmental laws, policies, and procedures of the borrower. The Environment Department (ENV), Legal Department, and the REDs maintain information on these requirements.

Screening

- 18. Projects should be screened at identification by the TM, with advice from the RED, and assigned to one of the following categories based upon the nature, magnitude and sensitivity of environmental issues:
 - Category A EA is normally required as the project may have diverse and significant environmental impacts.
 - Category B More limited environmental analysis is appropriate, as the project may have specific environmental impacts.
 - Category C Environmental analysis is normally unnecessary.
 - Category D Environmental projects, for which separate EAs may not be required, as environment would be a major focus of project preparation.

Annex 3 gives illustrative lists, to be applied flexibly, of the types of project/component in each category.

Initial Executive Project Summary

19. In the Initial Executive Project Summary (IEPS), the TM, in consultation with the RED, should (a) identify key environmental issues, (b) indicate the category (A-D) proposed and the type of environmental

analysis recommended, and (c) provide a preliminary preparation schedule. If an EA is not likely to be available prior to appraisal, the IEPS should propose special procedures to address the situation. The IEPS meeting would confirm the type, timing and issues of environmental analysis (although in the event of inadequate information, the decision may be deferred).

Monthly Operational Summary

20. The TM should ensure that the MOS, which is used to alert the Executive Directors to forthcoming projects, contains the following information as soon as available: (a) the category assigned (A-D); (b) the main issues to be examined; (c) whether agreement with the borrower has been reached on EA preparation; and (d) the EA schedule. The MOS entry should be updated whenever appropriate to reflect the progress of the EA and the related Bank and borrower decisions.

Preparation of TORs for the EA

21. Following the IEPS meeting, the Bank should discuss with the borrower the scope of the EA, and assist the borrower, as necessary, in preparing TORs for the EA. For this purpose, a field visit by Bank environmental staff is generally desirable. The Bank should ensure that the TORs provide for adequate inter-agency coordination (para. 11) and consultation with affected groups and local NGOs (para. 12).

EA Preparation

- 22. An EA for a major project typically takes 6-18 months to prepare and review. EA drafts should be available at key points in the project cycle. The final EA should be available prior to appraisal, to minimize the risk of project design changes and resultant delays at a late stage.
- 23. In most cases, the EA should form part of the overall feasibility study, so that the EA's findings are directly integrated into project design. However, the EA is normally prepared separately by analysts with appropriate expertise. For projects which would have major impacts, such as large dams or projects involving large scale resettlement, it is recommended that the borrower retain independent experts not affiliated with the project. Borrowers may request Bank assistance for financing EAs as part of an advance from the Project Preparation Facility (PPF), 6 or from the Technical Assistance Grant Program for the Environment. EAs generally account for 5-10 percent of the cost of project preparation.
- 24. For some projects, a full year of baseline data is desirable to capture the seasonal effects of certain environmental phenomena; however, as waiting for such data could delay critical project decisions, short-

^{6/} See OMS 2.15, Project Preparation Facility, to be reissued as OD 8.00.

term monitoring should be used to provide conservative estimates of environmental impacts, while longer-term data collection is being carried out. Since special care in designing the baseline monitoring program is warranted, the borrower should be encouraged to discuss the matter with the Bank.

EA Review and Project Appraisal

25. The borrower should submit the final EA report to the Bank prior to Bank appraisal. The EA report is the borrower's property, but the Bank encourages the borrower to release relevant information to appropriate interested parties. The Final Executive Project Summary (FEPS) should summarize the status of the EA and describe how major environmental issues have been resolved or are to be addressed, noting any proposed conditionality. The appraisal mission should review both the procedure and substantive elements of the EA with the borrower, resolve any issues, assess the adequacy of the institutions responsible for environmental planning and management in light of the EA's findings, and determine if the EA's recommendations are properly addressed in project design and economic analysis.

Loan Documents

26. The EA procedures followed and the main findings of the EA should be explained briefly in the text of the Staff Appraisal Report (SAR), and the Memorandum and Recommendations of the President. In addition, an SAR annex should summarize the EA more fully, covering, inter alia, environmental baseline conditions, alternatives considered, mitigating and compensatory actions, capability of environmental units and measures to strengthen them, environmental monitoring arrangements, and the borrower's consultations with affected groups and NGOs. These factors will provide the basis for the RED's formal environmental clearance prior to the authorization of negotiations by the Regional vice president. Measures critical to sound project implementation may require specific conditionality in the loan documents.

Supervision

27. EA recommendations provide the basis for supervising the environmental aspects of project implementation. Compliance with environmental conditionality, the status of mitigating measures, and the findings of environmental monitoring programs should be part of borrower reporting requirements and project supervision. When major issues arise, special supervision missions with adequate environmental expertise may be necessary.

Ex Post Evaluation

28. The project completion report (PCR)⁷ submitted to the Operations Evaluation Department (OED) should evaluate (a) environmental impacts anticipated in the EA report, as well as any unanticipated ones; and (b) the effectiveness of mitigating measures taken and of institutional development and training.

^{7/} See the OPNSV memoranda, <u>Guidelines for Preparing Project Completion</u>
Reports, June 1, 1989, and OMS 3.58, <u>General Guidelines for Preparing</u>
Project Completion Reports, which are to be combined and reissued as
OD 13.55, Project Completion Reports.

Sample Outline of a Project-Specific EA Report

- EA reports should be concise and limited to significant environmental issues. The level of detail and sophistication of analysis should be commensurate with the magnitude of potential impacts. The target audience should be project designers, implementing agencies, and borrower and Bank staff.
- The EA report should include:
 - (a) Executive Summary. Concise discussion of significant findings and recommended actions.
 - (b) Policy, legal, and administrative framework within which the EA is prepared. The environmental requirements of any cofinanciers should be explained.
 - (c) Project description in a geographic, ecological, social, and temporal context, including any off-site investments that may be required by the project (e.g. dedicated pipelines, access roads, power plants, water supply, housing, raw materials and product storage facilities).
 - (d) <u>Baseline Data</u>. Dimensions of the study area and description of relevant physical, biological, and socio-economic conditions, including any changes anticipated before the project commences. Current and proposed development activities within the project area (but not directly connected to the project) should also be taken into account.
 - (e) Environmental Impacts. The positive and negative impacts likely to result from the proposed project should be identified and assessed. Mitigation measures and the residual impacts that cannot be mitigated should be identified. Opportunities for environmental enhancement should be explored. The extent and quality of available data, key data gaps, and uncertainties associated with predictions should be identified/estimated. Topics that do not require further attention should be specified.
 - (f) Analysis of Alternatives. Proposed investment design, site, technology, and operational alternatives should be compared systematically in terms of their potential environmental impacts, capital and recurrent costs, suitability under local conditions, and institutional, training, and monitoring requirements. To the extent possible for each of the alternatives, the environmental costs and benefits should be quantified, and economic values attached where feasible.
 - (g) Mitigation Plan. Feasible and cost-effective measures which may reduce potentially significant adverse environmental impacts to acceptable levels should be proposed, and the potential environmental impacts, capital and recurrent costs,

and institutional and training requirements of those measures estimated. The plan (sometimes known as an "action plan" or "environmental management plan") should provide details on proposed work programs and schedules, to ensure that the proposed environmental actions are in phase with engineering activities throughout preparation. The plan should consider compensatory measures if mitigation measures are not feasible or cost-effective.

- (h) Environmental Management and Training. The existence, role and capability of environmental units at the on-site, headquarters and agency/ministry level should be assessed, and recommendations made concerning the establishment and/or expansion of such units, and the training of staff to the point that EA recommendations can be implemented.
- (i) Monitoring Plan regarding environmental impacts and performance. The plan should specify the type of monitoring, who would do it, how much it would cost, and what other inputs (e.g., training) are necessary.

Appendices

- (i) List of EA preparers -- individuals and organizations.
- (ii) References -- written materials used in study preparation. This is especially important given the large amount of unpublished documentation often used.
- (iii) Record of Inter-Agency/Forum Meeting, including list of both invitees and attendees. Where the views of affected groups and local NGOs were obtained by other means, these should be specified.

Checklist of Potential Issues for an EA

Where applicable, EAs should address the following issues, which are subject to the Bank policies and guidelines identified below.

- (a) Agrochemicals. The Bank promotes the use of integrated pest management (IPM) and the careful selection, application, and disposal of pesticides (see OPN 11.01, Guidelines for the Selection and Use of Pesticides in Bank-Financed Projects and their Procurement when Financed by the Bank, to be revised and reissued as OD 4.00, Annex C, Agricultural Pest Management, and Selection and Use of Pesticides). The use of fertilizers, due to their impacts on surface and groundwater quality, must also be carefully assessed;
- (b) Biological Diversity. The Bank promotes conservation of endangered plant and animal species, critical habitats, and protected areas (para. 9b, OMS 2.36, Environmental Aspects of Bank Work, and OPN 11.02, Wildlands: Their Protection and Management in Economic Development, to be reissued as OD 4.00, Annex D, Wildlands: Their Protection and Management).
- (c) Coastal and Marine Resources Management. Guidelines are available from the Environmental Department (ENV) on the planning and management of coastal marine resources including coral reefs, mangroves, and wetlands.
- (d) <u>Cultural Properties</u>. OPN 11.03, <u>Management of Cultural Property in Bank-Financed Projects</u> (to be reissued as OD 4.50, <u>Cultural Property</u>), confirms the Bank's commitment to actively protect archaeological sites, historic monuments, and historic settlements.
- (e) Dams and Reservoirs. OD 4.00, Annex B, Environmental Policy for Dam and Reservoir Projects, provides specific guidance for addressing environmental issues in planning, implementation, and operation of dam and reservoir projects.
- (f) Hazardous and Toxic Materials. Guidelines are available from ENV on the safe manufacture, use, transport, storage, and disposal of hazardous and toxic materials.
- (g) Induced Development and Other Socio-Cultural Aspects.
 Secondary growth of settlements and infrastructure, often referred to as "induced development" or "boomtown" effects, can have major indirect environmental impacts. The costs of addressing this problem must frequently be borne by relatively weak local governments.
- (h) Industrial Hazards. All energy and industry projects should include a formal plan to prevent and manage industrial hazards. (See <u>Techniques of Assessing Industrial Hazards - A</u> Manual, World Bank Technical Paper No. 55.)

- (i) International Treaties and Agreements on the Environment and Natural Resources. EAs should review the status and application of such current and pending treaties and agreements, including their notification requirements. The Legal Department maintains a list of international treaties, and could obtain, whenever required, information on applicable law in individual countries.
- (j) International Waterways. OMS 2.32, Projects on International Waterways (to be re-issued as OD 7.50), provides guidance on this matter. This OMS exempts from notification requirements rehabilitation projects which will not affect the quality or quantity of water flows.
- (k) Involuntary Resettlement. OMS 2.33, Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects, and OPN 10.08, Operations Issues in the Treatment of Involuntary Resettlement in Bank-Financed Projects (to be reissued as OD 4.30, Involuntary Resettlement), provide guidance.
- (1) <u>Land Settlement</u>. Due to the complex physical, biological, socio-economic, and cultural impacts, land settlement should generally be carefully reviewed (see OD 4.31, <u>Land</u> Settlement, to be issued).
- (m) Natural Hazards. EAs should review whether the project may be affected by natural hazards (e.g., earthquakes, floods, volcanic activity), and should propose specific measures to address these concerns when appropriate, (see OD 8.50, Emergency Recovery Assistance, to be issued).
- (n) Occupational Health and Safety. All industry and energy projects, and projects in other sectors where relevant, should include a formal plan to promote occupational health and safety (Occupational Health and Safety Guidelines, 1988).
- (o) Tribal Peoples. OMS 2.34, Tribal People in Bank-Financed Projects (to be reissued as OD 4.40, Tribal People), provides specific guidance for addressing the rights of tribal peoples, including traditional land and water rights.
- (p) Tropical Forests. The Bank co-authored the Tropical Forest Action Plan (published in 1984); up-to-date information is available from ENV. OPN 11.02, Wildlands: Their Protection and Management in Economic Development (to be reissued as OD 4.00, Annex D), also addresses issues relating to tropical forests.

- (q) Watersheds. Bank policy is to promote protection and management of watersheds as an element of lending operations for dams, reservoirs, and irrigation systems (OD 4.00, Annex B, Environmental Policy for Dam and Reservoir Projects, para. 6).
- (r) Wetlands. The Bank promotes conservation and management of wetlands (e.g., estuaries, lakes, mangroves, marshes, and swamps). This is covered by OPN 11.02 on Wildlands (see (s) below).
- (s) <u>Wildlands</u>. The Bank is committed to protect wildlands, including through compensatory measures when lending could result in adverse impacts (see OPN 11.02, <u>Wildlands: Their Protection and Management in Economic Development</u>, to be reissued as OD 4.00, Annex D, <u>Wildlands: Their Protection</u> and Management).

Environmental Screening

Introduction

- 1. The task manager (TM), in consultation with the Regional environmental division is responsible for screening a proposed project to determine the appropriate type of environmental analysis, based on the nature, potential magnitude, and sensitivity of the issues. The categories below, based upon prior Bank staff experience, are strictly illustrative. Alternatives to EA are acceptable where they are expected to result in an environmentally sound project.
- 2. <u>Category A: Projects/Components which may Have Diverse and Significant Environmental Impacts Normally Require EA¹</u>
 - (i) Aquaculture/Mariculture (large scale);
 - (ii) Dams and Reservoirs; 2
 - (iii) Electrical Transmission (large scale);
 - (iv) Forestry;
 - (v) Industrial Plants (large scale) and Industrial Estates;
 - (vi) Irrigation and Drainage (large scale);
 - (vii) Land Clearance and Leveling;
 - (viii) Mineral Development (including oil and gas);
 - (ix) Pipelines (oil, gas and water);
 - (x) Port and Harbor Development;
 - (xi) Reclamation and New Land Development;
 - (xii) Resettlement:3

^{1/} Except generally for projects directed to rehabilitation, improved operation and maintenance, and limited upgrading of facilities.

^{2/} See OD 4.00, Annex B, Environmental Policy for Dam and Reservoir Projects.

^{3/} While OMS 2.33, Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects (to be reissued as OD 4.30, Involuntary Resettlement), covers the social aspects of resettlement, the environmental implications of the resettlement itself can be major.

- (xiii) River Basin Development;
 - (xiv) Rural Roads;
 - (xv) Thermal and Hydropower Development;
 - (xvi) Tourism (large scale);
- (xvii) Transportation (airports, railways, roads, waterways);
- (xviii) Urban Development (large scale); and,
 - (xix) Urban Water Supply and Sanitation (large scale).
 - (xx) Manufacture, Transportation, and Use of Pesticides or other Hazardous and/or Toxic Materials; 4 and
 - (xxi) Projects which Pose Serious Accident Risk.5
- 3. Category B: Projects/Components which may Have Specific
 Environmental Impacts More Limited Environmental Analysis Appropriate

Projects in this category normally require more limited environmental analysis than an EA. A wide range of environmental guidelines, developed by a number of organizations, are applicable. In addition, specific environmental pollution standards or design criteria can be developed for individual projects.

- (i) Agroindustries (small scale);
- (ii) Aquaculture and Mariculture (small scale);
- (iii) Electrical Transmission (small scale);
- (iv) Industries (small scale);
 - (v) Irrigation and Drainage (small scale);

^{4/} In some cases, adherence to existing directives is an acceptable alternative to an EA (see OD 4.00 Annex C, Selection and Use of Pesticides, to be reissued). Certain materials (e.g. PCBs) are not to be used in Bank projects and other materials (e.g. asbestos) are to be used only under extremely restricted conditions. A Restricted Toxic Materials List (RTML) will be available from ENV and updated periodically.

^{5/} See Techniques of Assessing Industrial Hazard - A Manual, World Bank Technical Paper No. 55.

THE WORLD BANK

September 18, 1989

Mr. Conable:

Please find attached a revised version of the paper sent to you earlier today.

MOEEN A. QURESHI Senior Vice President, Operations FROM: Vice President and Secretary

CHILE - Proposals Towards Reduction of External Debt*

Attached is a document on the above subject provided for the information of Executive Directors.

Distribution

Executive Directors and Alternates

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

*Questions on this document may be referred to Mr. S. Mitra (ext. 30129)

Chile: Proposal Towards Reduction in External Debt

Introduction

1. The Chilean authorities have informed the Bank of their intention to take advantage of a provision of their 1988 multi-year rescheduling arrangement (MYRA) with creditor commercial banks that permits use of Chile's gross international reserves for the purpose of reducing external debt owed to commercial banks. The purpose of this note is to inform Executive Directors of the broad structure of the proposed operation, including the role envisaged for the Bank, and to set out management's position with respect to the support requested by Chile.

The Proposed Operation

Under a clause of the 1988 MYRA with creditor commercial banks, 2. Chile was permitted to employ the lesser of \$500 million or the holdings of reserves in its Copper Stabilization Fund in order to effect a reduction in its commercial bank debt.1/ In November 1988, Chile used \$168 million in order to buy-back debt equivalent to \$298 million, implying a discount of about 44 percent to face value of debt. The authorities now wish to use an amount up to the remaining \$332 million in order to finance a further buyback operation. To this end, the authorities propose conducting an auction in mid-November 1989 at which they will accept bids yielding a sufficiently high discount and, therefore, a minimum satisfactory rate of return to the the resources employed for the buy-back. It may be noted, purely for illustrative purposes, that should an average discount of 40 percent be realized, the operation will yield a rate of return of 19 percent or well in excess of the current opportunity cost of funds to Chile and a rate similar to that attained in most project investments in the country.

The Operation in Relation to the Bank and Other Conditions

3. As an integral part of assembling the required US\$332 million in financing, the Chilean authorities have indicated that they wish to take advantage of the debt and debt service reduction support operations envisaged by the Bank and the Fund in the context of the Brady initiative. Accordingly they have approached the management of the Bank for funding support by way of a "set aside" to a proposed Financial Markets Loan (to be presented to the Board for consideration in November 1989). This proposed loan is in the amount of US\$130 million, of which US\$80 million would be available in quick disbursing form in support of reform in financial

^{1/} See documentation on SALs I, II and III. At end-June 1989, reserves in the Copper Stabilization Fund amounted to US\$1.3 billion.

markets, the proceeds of which could be used in support of the proposed buy-back operation. The Chilean authorities are expected to reach agreement with Fund management on a standby arrangement for a period of one year in the first credit tranche in the amount of SDR 64 million (about US\$80 million), and Board consideration is planned for late October. Chile intends to devote the proceeds of the arrangement with the Fund—which, being a purchase in the first credit tranche, will be drawn in one tranche upon approval of the arrangement by the Board—for the purpose of partial funding of the buy-back. Chile plans to contribute a little over half of the funds required for the proposed operation from its own reserves.

- 4. Chile satisfies all the eligibility criteria for Bank assistance for debt and debt service reduction operations as defined by the Board. The proposed amount for the "set aside" is equivalent to about 7 percent of the three-year lending program and is, thus, well within the guidelines. It is envisaged to be disbursed in two equal tranches of US\$40 million each with the disbursement of the second tranche taking place in the final quarter of the life of the standby arrangement with the Fund, i.e., nine to twelve months subsequent to the release of the first tranche, provided conditionality specific to reform of financial markets and to macroeconomic performance were met. The shorter time limit than that envisaged in the guidelines between the two tranches is justified in the present case in view of the fact that the parallel arrangement with the Fund is of a one year duration and in light of Chile's impressive record of adjustment and structural reform.
- 5. The Chilean authorities intend providing a formal notification to commercial banks of the proposed buy-back operation before end-September 1989 so as to permit banks the necessary time to develop their positions prior to the execution of the auction. Furthermore, in accordance with the terms of the 1988 MYRA, two-thirds of participating creditor banks have to authorize the proposed operation before Chile can go ahead, for which purpose a 30-day notification period has to be given to them. Chile expects to receive the required approval from creditor banks without difficulty. Bank management intends to signal to Chile its intention to recommend to the Board the proposed loan of \$130 million with a quick disbursing component of \$80 million; this latter amount of \$80 million could be used as a "set aside" for debt reduction operations.
- 6. The economic impact of the proposed operation and materiality with respect to Chile's development prospects will be discussed in the documentation associated with the Financial Markets Loan to be circulated to Executive Directors in the latter part of October. Upon the completion of the auction, a supplement to the Staff Appraisal Report outlining the terms accepted, the implied rate of return and a recommendation as to the suitability of this operation will be issued to the Board, prior to the release of the first tranche.

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

MOEEN A. QURESHI Senior Vice President, Operations

September 18, 1989

Mr. Conable:

Attached is a note, drafted by the Region, to be circulated to the Board for information.

If you are agreeable to using the quick disbursing component of the loan for a "set aside", then we must keep the Board informed about our discussions with the Chilean authorities.

I am personally of the view that through these "set asides" we are going to get credit for supporting the debt reduction process, without putting any new money into the country.

Lest a different impression was conveyed this morning, the Chileans are planning to use about \$160-180 million of the resources of the Copper Stabilization Fund, in addition to our resources, for the buyback operation.

M run

FROM: Vice President and Secretary

CHILE - Proposals Towards Reduction of External Debt*

Attached is a document on the above subject provided for the information of Executive Directors.

Distribution

Executive Directors and Alternates

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

*Questions on this document may be referred to Mr. S. Mitra (ext. 30129)

1

Chile: Proposal Towards Reduction in External Debt

Introduction

1. The Chilean authorities have informed the Bank of their intention to take advantage of a provision of their 1988 multi-year rescheduling arrangement (MYRA) with creditor commercial banks that permits use of Chile's gross international reserves for the purpose of reducing external debt owed to commercial banks. The purpose of this note is to inform Executive Directors of the broad structure of the proposed operation, including the role envisaged for the Bank, and to set out management's position with respect to the support requested by Chile.

The Proposed Operation

2. Under a clause of the 1988 MYRA with creditor commercial banks. Chile was permitted to employ the lesser of \$500 million or the holdings of reserves in its Copper Stabilization Fund in order to effect a reduction in its commercial bank debt.1/ In November 1988, Chile used \$168 million in order to buy-back debt equivalent to \$298 million, implying a discount of about 44 percent to face value of debt. The authorities now wish to use an amount up to the remaining \$332 million in order to finance a further buyback operation. To this end, the authorities propose conducting an auction in mid-November 1989 at which they will accept bids yielding a sufficiently high discount and, therefore, a minimum satisfactory rate of return to the the resources employed for the buy-back. It may be noted, purely for illustrative purposes, that should an average discount of 40 percent be realized, the operation will yield a rate of return of 19 percent or well in excess of the current opportunity cost of funds to Chile and a rate similar to that attained in most project investments in the country.

The Operation in Relation to the Bank and Other Conditions

3. As an integral part of assembling the required US\$332 million in financing, the Chilean authorities have indicated that they wish to take advantage of the debt and debt service reduction support operations envisaged by the Bank and the Fund in the context of the Brady initiative. Accordingly they have approached the management of the Bank for funding support by way of a "set aside" to a proposed Financial Markets Loan (to be presented to the Board for consideration in November 1989). This proposed loan is in the amount of US\$130 million, of which US\$80 million would be available in quick disbursing form in support of reform in financial

^{1/} See documentation on SALs I, II and III. At end-June 1989, reserves in the Copper Stabilization Fund amounted to US\$1.3 billion.

markets, the proceeds of which could be used in support of the proposed buy-back operation. The Chilean authorities are expected to reach agreement with Fund management on a standby arrangement for a period of one year in the first credit tranche in the amount of SDR 64 million (about US\$80 million), and Board consideration is planned for late October. Fund management has indicated its support of the proposed operation and its willingness to see the proceeds of the purchase--which, being a purchase in the first credit tranche, will be drawn in one tranche upon approval of the arrangement by the Board--employed for the purpose of partial funding of the buy-back. Chile plans to contribute a little over half of the funds required for the proposed operation from its own reserves.

- 4. Chile satisfies all the eligibility criteria for Bank assistance for debt and debt service reduction operations as defined by the Board. The proposed amount for the "set aside" is equivalent to about 7 percent of the three-year lending program and is, thus, well within the guidelines. It is envisaged to be disbursed in two equal tranches of US\$40 million each with the disbursement of the second tranche taking place in the final quarter of the life of the standby arrangement with the Fund, i.e., nine to twelve months subsequent to the release of the first tranche, provided conditionality specific to reform of financial markets and to macroeconomic performance were met. The shorter time limit than that envisaged in the guidelines between the two tranches is justified in the present case in view of the fact that the parallel arrangement with the Fund is of a one year duration and in light of Chile's impressive record of adjustment and structural reform.
- 5. The Chilean authorities intend providing a formal notification to commercial banks of the proposed buy-back operation before end-September 1989 so as to permit banks the necessary time to develop their positions prior to the execution of the auction. Furthermore, in accordance with the terms of the 1988 MYRA, two-thirds of participating creditor banks have to authorize the proposed operation before Chile can go ahead, for which purpose a 30-day notification period has to be given to them. Chile expects to receive the required approval from creditor banks without difficulty. Bank management intends to signal to Chile its intention to recommend to the Board the proposed loan of \$130 million with a quick disbursing component of \$80 million; this latter amount of \$80 million could be used as a "set aide" for debt reduction operations.
- 6. The economic impact of the proposed operation and materiality with respect to Chile's development prospects will be discussed in the documentation associated with the Financial Markets Loan to be circulated to Executive Directors in the latter part of October. Upon the completion of the auction, a supplement to the Staff Appraisal Report outlining the terms accepted, the implied rate of return and a recommendation as to the suitability of this operation will be issued to the Board, prior to the release of the first tranche.

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CLASS OF SERVICE: DRAFTED BY: EXTENSION: TBlinkhorn:rb 76921 AUTHORIZED BY (Name and Signature) CLEARANCES AND COPY DISTRIBUTION: Barber B. Conable : Cleared with and cc: DEPARTMENT:

Messrs. Qureshi, Alisbah cc: Mr. Baijal

Messrs. Karaosmanoglu, Humphrey,

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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

· OFFICE MEMORANDUM

DATE:

September 18, 1989

b :

Mr. Barber B. Conable

THROUGH:

Mr. Moeen A. Qureshi MKA

FROM:

Bilsel Alasbah, Director, AS4

SUBJECT:

INDIA - Mother Theresa

As you may have heard, Mother Theresa has been hospitalized in Calcutta after suffering severe chest pains. News reports suggest that she may have had a heart attack. You will recall having met her in Calcutta in November, 1987; we therefore suggest that you send the attached telex wishing her well.

Attachment

cc: Mr. Baijal

Messrs. Karaosmanoglu, Kraske, Humphrey, Ritchie, Blinkhorn

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	Messrs.	Qureshi, Alisbal	h	DEPARTMENT:			
	cc: Mr. B Messr	Baijal rs. Karaosmanoglu Ritchie	u, Humphrey,	SECT CHECKED FOR D	ION BELOW FOR	USE OF CAR	BLE SECTION
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OFFICIAL FILE COPY

September 15, 1989

Dear Mr. Faquih:

Thank you for your letter of August 15, 1989, informing me of your appointment as Director General and Chairman of the Board of Executive Directors of the Arab Monetary Fund. Please accept my congratulations.

We look forward to continued close cooperation between the World Bank and the Arab Monetary Fund and share your wish to enhance our relations for the mutual benefit of our organizations. I wish you every success in your new position.

With my best regards,

Sincerely, (Signed) Barber B. Conable

Barber B. Conable

Mr. Osama J. Faquih
Director General and
Chairman of the Board
Arab Monetary Fund
P.O. Box 2818
Abu Dhabi
United Arab Emirates

cc: Messrs. Qureshi, Thalwitz, Stoutjesdijk, Voyadzis

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OFFICIAL FILE COPY



ARAB MONETARY FUND

Office Of The Director General

Ref: 01-10-00/1880

August 15, 1989

Mr. Barber Conable The President The World Bank 1818 H Street, N.W. Washington D.C. 20433 U.S.A.

Dear Mr. Conable,

I wish to inform you that I have assumed my duties as Director General and Chairman of the Board of Executive Directors of the Arab Monetary Fund as of 1/7/1989.

On this occasion, I should like to assure you of my desire to have the existing relations of cooperation and coordination grow stronger for the mutual interest and benefit of our two intitutions.

Best personal regards.

Sincerely yours,

Osama J. Faquih
Director General

1/10

Chairman of the Board

FORM NO. 75
(6-83) THE WORLD BANK/IFC

ROUTING SLIP	September 12, 1989			
NAME		ROOM NO.		
To: Mr. B. Conable				
Thru: Mr. Moeen Qure	shi MAQ			
From: Wilfried P. Th	awitz			
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3ARBER B. CONABLE

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With my best regards.

Sincerely,

Mr. Osama J. Faquih
Director General and
Chairman of the Board
Arab Monetary Fund
P.O. Box 2818
Abu Dhabi
United Arab Emirates

WORLD BANK OTS SYSTEM SENIOR VICE PRES. OPERATIONS

COMMENTS : PRIORITY #1

CORRESPONDENCE DATE : 89/08/15	DUE DATE : 89/09/13
LOG NUMBER : 890906012	FROM : EXC
SUBJECT : ARAB MONETARY FUND - LETTER	MR. O. FAQUIH INFORMING OF ASSUMPTION
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OFFICE ASSIGNED TO FOR ACTION : Mr	. Thalwitz (H-12-071)
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FOR YOUR REVIEW AND RECOMM	MENDATION
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WORLD BANK OTS SYSTEM OFFICE OF THE PRESIDENT

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RRESPONDENCE DATE: 89/08/15 OG NUMBER: 890829005 SUBJECT: Arab Monetary Fund: to inform that he has assumed his duties as Director Gneral & Chairman of the Board effective 1/7/89. OFFICE ASSIGNED TO FOR ACTION: Mr. M. Qureshi (E-1241)
ACTION:
APPROVED
PLEASE HANDLE
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AS WE DISCUSSED
RETURN TO
COMMENTS :cc for info: Mr. Stern



ARAB MONETARY FUND

Office Of The Director General

Ref: 01-10-00/1880

August 15, 1989

Mr. Barber Conable The President The World Bank 1818 H Street, N.W. Washington D.C. 20433 U.S.A.

Dear Mr. Conable,

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On this occasion, I should like to assure you of my desire to have the existing relations of cooperation and coordination grow stronger for the mutual interest and benefit of our two intitutions.

Best personal regards.

Sincerely yours,

Osama J. Faquih

1110

Director General

Chairman of the Board

890915031

OFFICE MEMORANDUM

DATE: September 14, 1989

TO: Mr. Moeen Qureshi, OPNSV

THROUGH: Attila Karaosmanoglu, ASIVP TH.

FROM: Shahid Javed Burki, AS3DR

EXTENSION: 72571

SUBJECT: CHINA: Invitation for Loan Negotiation

Mr. Comalle:

I believe it is appropriet for
is to go ahead and vaine
invitations to negetiate. It will
also constitute a testing of the
water. MAR.

9/15.

We have three operations for which the internal processing of documents have been completed:

Mid-Yangtze Agriculture Development: Rural Industrial Technology (SPARK): Daguangba Power Project: \$64 m IDA \$110 m IBRD \$67 m IDA/IBRD

We have been withholding issuance of invitation to negotiation because of the current China situation. These negotiations should be held around middle of October in order to permit presentation to the Board in the middle of December. Any further delay in holding negotiation would result in slipping of the projects into the third quarter. We, therefore, request your approval to proceed with the issuance of invitation to negotiate these loans. We expect the first negotiation to take place around October 16, 1989, by which time we hope that the first of the seven loans held over from FY89 would have been approved by the Board.

cc: China Management Group

DAhmad: to

Mr. Conable:

Bunching

Mr. Qureshi asked me to alert you to the following first response to the "Bunching" Paper.

Mr. Coady asked me yesterday for a meeting on the board paper. As we had expected, he used this meeting to convey his and the U.S. Treasury staff's dissatisfaction with the management position set out in the paper which he described as unresponsive to their concerns. While he was not specific about the type of management proposal which they would have considered responsive, he made it clear that his chair would take a very critical position in the upcoming Board discussion of the paper and would seek ways and means to defer major parts of the FY90 lending program if that were necessary to de-bunch the Board presentations.

Heinz Vergin

cc: Mr. Qureshi

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 18, 1989

TO: Mr. Barber B. Conable, President

THROUGH: Mr. Moeen A. Qureshi, OPNSV

FROM: David Bock, Actg. VP, CFS

EXTENSION: 70795

SUBJECT: JAPAN - EXIM Bank Cofinancing for Algeria

- 1. Further to Mr. Kashiwaya's memorandum of August 9, 1989 on the above subject, this is to advise you that legal issues, a question of jurisdiction, between The Export-Import Bank of Japan and the Algerian Government concerning three EXIM untied cofinancing loans have been resolved following a formula outlined in Mr. Kashiwaya's memorandum to you and loan agreements are expected to be signed in October.
- 2. EXIM Bank and the Algerian Government have now agreed that
 - (i) The Development Bank of Algeria (BAD) will guarantee the EXIM loans;
 - (ii) a Presidential Decree will be issued giving the Government's financial support to BAD in conjunction with this BAD guarantee, and the Finance Minister is to issue a letter of comfort to Japan EXIM to support the BAD guarantee; and
 - (iii) the BAD guarantee will be subject to Japanese laws and court jurisdiction.

cc: Messrs. Kashiwaya, CFSVP; Dervis, EM2DR; Taylor/Hatano/Ohashi, CFS

THatano: mo

THE WORLD BANK

September 19, 1989

Mr. Conable:

Attached is a draft letter to Secretary Brady.

It does not go very far but it does show goodwill and an effort to meet his concerns on dissemination of information.

> MOEEN A. QURESHI Senior Vice President, Operations

Mr. Nicholas F. Brady Secretary of the Treasury 1500 Pennsylvania Avenue Washington, D.C. 20220

Dear Nick:

Thank you for your letter of August 18, outlining the US Government's views on the issue of public access to information concerning environmental aspects of Bank projects. I agree that the Bank should encourage increased involvement in project preparation by those directly affected by its operations and that its appraisal judgments be available for timely commentary.

A key priority is to provide for proper involvement and consultation in the preparation phase of projects, when technical issues are explored and crucial choices are made on such matters as site selection, choice of technologies and institutional arrangements. Toward this end, our new environmental assessment guidelines which I expect to issue this month specify that: "The Bank expects the borrower to take the views of affected groups and local nongovernmental organizations (NGOs) fully into account in project design and implementation, and in particular in the preparation of environmental assessments." In this context, we also expect our borrowers to make their completed environmental assessments available to affected groups and other interested parties.

While project preparation is the responsibility of the borrowing country, the Bank can--and will--use its resources and influence to strengthen borrower institutions and procedures in the environmental area--as we have done in other areas--to assure that the member countries will build the independent capacity to deal effectively with environmental issues in its investment planning. Our objective will be to have environmental issues become part of Government's normal investment review process--not just in investments and programs which we directly finance. Therefore, the new guideline stresses the strengthening of in-country environmental capabilities.

Once projects have been prepared, where necessary with our assistance, the options for major revisions during appraisal are limited. Our appraisal missions tend to focus on project management and incentives rather than on the basic technological choices. There are, of course, projects for which the returns appear questionable so that it is decided not to go ahead or to undertake a fundamental redesign, but these are infrequent. As you can imagine, redesign is very costly to both the borrower and the Bank and suggests that we have not done an adequate job of assisting our borrowers during the preparation phase.

When projects come to our Board of Directors, the adequacy of staff appraisal work is subject to critical review. Moreover, at least 9-12 months in advance of bringing projects to our Board of Directors, they will have been alerted about those projects for which it has been decided that environmental assessments will have to be prepared as part of the borrower's project preparation and about the main issues that are to be examined. This information which is provided to our Board in the so-called Monthly Operational Summary will also be periodically updated as project preparation proceeds and staff appraisal commences. As regards the Board review of loans and credits, I believe that our Executive Directors' offices are appropriately staffed to review the economic, financial, and institutional aspects of projects in the period (normally three weeks) between circulation of documents and formal Board discussion. With the early alert about projects which raise significant environmental issues, and with the steps which we are taking to encourage the borrowers to make their completed environmental assessments available to affected groups and other interested parties, it should be possible for the Executive Directors' offices to obtain from the staff and from the respective borrowers the information about status and substance of the environmental assessments that would help them respond to any questions that might arise.

I was troubled by your reference to the perception that the Bank has acted reluctantly on some of these matters. My objective has been to move us as rapidly as practicable to a more comprehensive involvement of the Bank in environmental issues--from better project assessment to global issues. This approach is, I believe, supported widely by our shareholders. My sense is that the Bank is moving as rapidly as it can, given the need to develop within the Bank the intellectual and technical capacity to deal effectively with the complex issues in this area, and to build confidence in the new approaches among borrower governments. If we attempt too much, too fast, we risk undermining borrowers' willingness to seek help or advice from the Bank on these matters. The net result would be to reduce rather than to enhance our constructive role on environmental issues.

I hope the steps I have outlined will be understood and accepted as realistic measures that meet the central concerns expressed while preserving the Bank's effectiveness on these issues.

Sincerely,

Barber B. Conable

FORM NO. 75 (6-83)

THE WORLD BANK/IFC

ROUTING SLIP	September 13, 1989
NAME	ROOM NO.
Mr. B. Conable	
APPROPRIATE DISPOSITION	NOTE AND RETURN
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COMMENT	PER YOUR REQUEST
FOR ACTION	PREPARE REPLY
INFORMATION	RECOMMENDATION
INITIAL	SIGNATURE
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Mr. Gurria requestreaments for a second provide him an approvide to the Banks by May we have your approvour earliest conventions.	noon tomorrow.
FROM:	ROOM NO.: EXTENSION

FORM NO. 75 (6-83)

THE WORLD BANK/IFC

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	NAME		ROOM NO.			
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	Mr. M. Jureshi					
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1	noon.					

TO: THE INTERNATIONAL BANKING COMMUNITY

FROM: BARBER B. CONABLE, PRESIDENT, THE WORLD BANK

DATE: SEPTEMBER 15, 1989

RE: MEXICO

THE PURPOSE OF THIS COMMUNICATION IS TO GIVE AN OVERVIEW OF MEXICO'S ADJUSTMENT PROGRAM AND TO EMPHASIZE THE URGENT NEED FOR EXTERNAL FINANCIAL SUPPORT TO ENSURE THE SUCCESS OF THE PROGRAM.

FOLLOWING EIGHT YEARS OF FALLING PER CAPITA INCOME, THE MEXICAN GOVERNMENT HAS EMBARKED ON A NUMBER OF POLICY REFORMS AIMED AT THE RESTORATION OF ECONOMIC GROWTH AND MONETARY STABILITY. THIS STABILIZATION PROGRAM HAS ALREADY SHOWN SIGNIFICANT RESULTS, AS DOMESTIC INFLATION DECLINED FROM 159% IN LATE 1987 TO 17% DURING THE TWELVE MONTHS ENDING IN JULY 1989. WHILE DEEPENING THE ADJUSTMENT EFFORT, THE GOVERNMENT HAS BEEN IMPLEMENTING MAJOR STRUCTURAL REFORM MEASURES IN TRADE POLICY, TAXATION, THE FINANCIAL SECTOR, AND PUBLIC ENTERPRISE MANAGEMENT. THE PROGRAM RELIES ESPECIALLY ON CREATING A DYNAMIC PRIVATE SECTOR AND INCLUDES KEY MEASURES FOR ACCELERATED PRIVATIZATION, AND FOR STREAMLINING FOREIGN INVESTMENT REGULATIONS.

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BEST REGARDS,

BARBER B. CONABLE PRESIDENT THE WORLD BANK TO: THE INTERNATIONAL BANKING COMMUNITY

FROM: BARBER B. CONABLE, PRESIDENT, THE WORLD BANK

DATE: SEPTEMBER 15, 1989

RE: MEXICO

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BEST REGARDS,

BARBER B. COMABLE PRESIDENT THE WORLD BANK

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 12, 1989

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi

EXTENSION: 73665

SUBJECT: FY89 Retrospective Review

1. This memorandum transmits the FY89 Retrospective Review of operational programs and budgets, highlighting the outcome of the lending program, the utilization of resources by work program, the pattern of dollar expenditures and the redeployment of resources undertaken to meet the high priority requirements of country assistance. Managers throughout the Operations Complex have participated in the review process, so that the final report incorporates a wide range of experience concerning the fiscal year just concluded.

Attachments

cc: Regional Vice Presidents

Chief Administration Officers

Messrs. Kashiwaya, CFSVP; Picciotto, PBDDR; Vergin, OPNSV;

Dubey, EAS; Lee, COD; Robless, OPNMS;

Smucker, OPNMS; Benedito, OPNMS.

Mesdames. Okonjo-Iweala, OPNSV; Moore, OPNIS; Najm, OPNMS.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

September 11, 1989

Mr. Conable

I agree with the proposed approach outlined by Mr. Husain. However, we need to brief the Board on what we propose to do before we inform Chile. This briefing can be done at the same time as the Philippines.

9/11

P-1850

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 6, 1989

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: CHILE: Proposed Debt Reduction Operation as Part of Financial Markets Loan

1. The purpose of this memorandum is to bring you up to date on this operation and to seek your approval for the next steps that we propose.

Background

- 2. As you will recall, in a meeting with Mr. Qureshi and yourself on May 11, Finance Minister Enrique Seguel raised the question of a multilaterally-supported debt reduction operation in the context of the Brady Plan. You indicated that Chile would, in principle, be eligible. The Minister proposed a \$330 million operation that would be funded equally by Chile, the Bank, the Fund and Japan. You indicated that you would be willing to consider such an operation jointly with the Fund, provided a suitable adjustment loan were available as a vehicle.
- 3. On May 26, the Operations Committee approved the pre-appraisal package for the Financial Markets Loan for Chile conceived as a hybrid operation consisting of a quick-disbursing component in support of financial sector reform with the proceeds to be used for debt reduction and a credit line to support leasing. Subsequently, the loan was appraised and good progress made in defining a suitable debt reduction operation. It was agreed that a straight buy back would be the optimal approach in Chile's case at this time. The operation could be done quickly at low administrative cost within an existing debt buy back frame agreement negotiated between Chile and its commercial bank creditors last year and supported by the Bank and the Fund. Under that agreement Chile was permitted to use up to \$500 million in support of debt reduction. Chile has already used \$170 million of this amount, so \$330 million remains.
- 4. The Chilean authorities have now informed us of their intention to invite bids via an auction for buy backs not later than November 10, i.e., not later than a month before its presidential elections. They wish to approach their creditor banks before our Annual Meetings for which purpose they require an indication of the Bank's support from Management. According to their MYRA, at least a month has to elapse between notifying banks and the conduct of the auction. This timetable is convenient in that the announcement of an additional Brady deal at the time of the Annual Meetings would be welcome to us and to all supporters of the Brady initiative. You may recall that during his visit to Santiago a fortnight ago, Mr. Mulford indicated his strong backing for a Brady-supported debt reduction operation for Chile.

The Loan Amount

- 5. The Chilean authorities believe that the prospects of Japanese participation by way of parallel cofinancing have improved and, on balance, are reasonable. This is, however, contrary to earlier indications we had obtained from the Japanese authorities. Mr. Kashiwaya has reiterated that the Japanese authorities do not envisage parallel cofinancing for Chile in support of a buy back operation. Fund management is prepared, after last week's successful negotiations, to grant Chile a standby arrangement in the first credit tranche for SDR 64 million (\$79 million at today's exchange rates), which, being a first tranche arrangement will be purchased without phasing, i.e., in one lump sum at any time after Board approval scheduled for late October. This sum is available for any purpose, including the financing of buy backs.
- 6. We request your authority to proceed with a loan amount of \$80 million as the quick-disbursing component in the total loan size of \$130 million. The amount of \$80 million is the equivalent of 7.1 percent of the approved total three-year lending program for Chile, i.e., it is well within the guidelines. It exhausts over two thirds of the support for principal collateralization permissible under our current operational practices, but the "additional" amounts (usable for interest support) remain, in principle, fully available to a future government for further debt reduction operations.

Other Operational Issues

- 7. The debt reduction component of the Bank loan is proposed to be disbursed in two equal <u>tranches</u>. The Government would fund the buy back from the purchase of its first credit tranche in the Fund and from official reserves held in the Copper Stabilization Fund, which would subsequently be replenished in the amounts agreed by tranche releases by the Bank and by any other parties. In the event debt reduction is not consummated, the proceeds of the first tranche will be made available simultaneous with those of the second for balance of payments financing, consistent with the guidelines governing the use of "set aside" amounts.
- 8. Besides measures specific to financial sector reform, conditionality pertaining to debt reduction will include: (i) sustained satisfactory macroeconomic performance; (ii) the maintenance satisfactory to the Bank of a program of external financing and debt management; and (iii) the continuation of contractual debt service payments to commercial banks.
- 9. The debt reduction guidelines as approved by the Board suggest that Bank support for debt reduction through set asides be made available over three years. In the Chile case, however, it would not be appropriate to tranche disbursements over a three-year period because the Fund standby covers only 12 months. Therefore, I request your authority for a departure from guidelines such that the second tranche of the debt reduction component of the proposed loan may be disbursed during the final quarter of the life of the Fund standby, i.e., about nine months to a year after loan effectiveness.

- The proposed debt reduction operation, though small in relation to Chile's total external debt, satisfies our materiality requirements. It represents one in a series of long-standing debt reduction operations that have to date reduced Chile's external commercial bank debt from \$15 billion in 1985 to \$7 billion at mid-1989. Debt reduction has boosted confidence, led to rising foreign investment and produced savings in interest payments to the benefit of the budget and to non-debt creating financing of domestic investment. Through the proposed operation, Chile expects to be able to "weed out" most of the remaining small creditor banks in the consortium. This would make it much easier to negotiate a rescheduling of lumpy amortization payments that fall due in 1991 and 1992 with a relatively small number of big banks, besides reducing the amortizations falling due in those years. Such rescheduling or refinancing is essential to help create a viable medium-term balance of payments position through the midnineties.
- 11. As the proceeds of the quick-disbursing element of the proposed loan would be used to replenish gross international reserves held in a segregated fund subsequent to the execution of a debt reduction buy back, issues of retroactive financing as to amounts and timing may arise. We are exploring this matter with colleagues in the Bank.

Conclusions

- 12. In conclusion, I request your approval to proceed along the lines indicated in this note. The staff has been in close contact with the Chilean authorities and the documentation is in an advanced stage of preparation. Board presentation has been set for November 14, i.e, a few days after the contemplated auction, which would permit the Board to be apprised of the terms of the buy back and its rate of return by way of a supplement to the Staff Appraisal Report. In particular, I request your authority to:
 - (i) signify to the Chilean authorities at the latest by September 24 your consent for Bank participation in the financing of the buy back operations; and
 - (ii) the amounts and tranching of the loan as outlined in paras. 6 and 9 of this note, viz a quick-disbursing element of \$80 million to be disbursed in two equal tranches, the second nine months to a year after loan effectiveness, within a total loan amount of \$130 million.

Cleared w/and cc: Mr. Kashiwaya (CFSVP)

OFFICE MEMORANDUM

Date: September 7, 1989

To: Mr. Barber B. Conable

Through: Mr. Moeen A. Qureshi

From: Attila Karaosmanoglu / .

Extension: 72283

Subject: PHILIPPINES: Status of Negotiations with the Commercial

Banks

For your approval, here is a paper to be sent to the Board describing the current status of Philippine negotiations with the commercial banks.

PHILIPPINES: State of Negotiations with the Commercial Banks

1. The Republic of the Philippines and its commercial bank creditors issued a joint statement at the conclusion of their August 8 - 15 meeting announcing tentative agreement on the terms of a financing package for the period 1989-1990. The purpose of this note is to inform the Executive Directors of the terms of the agreement, our preliminary assessment of the economic impact of the proposal, and to set out some questions raised by the Philippine delegations concerning potential World Bank support for the debt package currently being negotiated.

Terms of the Agreement

- 2. The preliminary agreement distributed to the banking community sets out some broad options open to the commercial banks. As it is a document partly designed to test market reaction in a broadly voluntary agreement, determination of several key numbers will depend on the reaction of the banks. The Government and the banks plan to resume discussions on September 12 to conclude the agreement.
- 3. The proposed agreement sets out two stages. The first calls for new money, a restructuring of the principal due on the 1985 new money loan, a cash exit option for those banks not desiring to supply new money, and the waivers necessary to engage in second stage operations. In the second stage, in a series of transactions over time, the authorities plan further debt and debt-service reduction operations negotiated on market terms with individual creditor banks. They contemplate using a variety of debt-reducing and interest-enhancing options, including par bonds with below-market interest rates.

New Money:

- 4. With regard to the new money, in keeping with its voluntary spirit, the agreement deliberately does not specify that new money be supplied by share of exposure. The authorities hope to get somewhere between \$1.0 and \$1.4 billion in new money
- 5. The agreement proposes to raise the new money with "1989 Philippine Bonds" issued by the Central Bank of the Philippines and guaranteed by the Republic of the Philippines. These bonds would mature in fifteen years (including eight years grace) and pay 13/16 over LIBOR. They are excluded from any future financial restructuring package: issuer and guarantor "covenant not to request restructuring at any time". The bonds will be sold in three tranches, scheduled to be drawn by December 1990. Up to twenty percent of a bank's bond subscription could be used for relending, of which no more than one-half can be relent to the private sector or in any one year.

Restructuring:

6. The preliminary agreement provides for rescheduling of principal falling due on the 1985 new money loan.

Cash Buybacks:

7. Banks may also tender their debt for cash buybacks. Prior to issuing the 1989 bonds, the government of the Philippines plans to tender an offer for certain categories of Bank debt at a price determined by the government of the Philippines. The authorities would set this price "having regard to the prevailing secondary market prices of Philippine public sector credits over the prior 12-month period". The amount of buybacks is also not indicated in the agreement, but the Government has indicated that substantial cash buybacks would be essential elements of any acceptable deal and that it expects initial cash buybacks to be in the range of \$1.0 to \$1.5 billion (par value), which would require \$500 to \$750 million cash at current secondary market prices.

Economic Impact

- 8. Work has begun in analyzing the implications of the proposed stage 1 debt program for the balance of payments, the Philippine economy, and for the IBRD. While detailed assessment of the impact must await more information about the terms, some broad points can be made. Estimates of the financing gap, about \$1.7 billion for 1989-90 before the Tokyo CG in July, now amount to about \$1.5 billion. The authorities have indicated that one acceptable combination of new money and debt buyback would provide about \$1.2 billion in net financing during this period. Together with somewhat more than \$200 million in rescheduled principal payments from the 1985 new money package, this would substantially close the 1989-1990 financing gap.
- 9. At the current stage of analysis, Bank staff would see external financing at this level as permitting the achievement of targets on the public investment program and of levels of private investment required for continued economic recovery. Fund staff do not see the domestic relending of the proceeds of new money bonds, up to twenty percent of their amount, as being of a size that might prove an obstacle to achieving the domestic and fiscal policy targets of the Fund program.
- 10. A more detailed appraisal of the likely economic impact of the program is underway and will be presented later to the Board.

Proposals Relative to Guidelines

- 11. As an integral part of the financing package, the Philippine authorities have indicated that they wish to take advantage of debt and debt-service reducing operations presently envisioned in IBRD and other programs. Accordingly, they have approached the IBRD, the IMF, and a Bilateral donor and indicated their desire to seek front-end loading of funding support and the use of some supplemental resources for debt buybacks. Specifically, with regard to the Bank, they seek funding of \$250-\$300 million to be made available, if possible, as early as November 1989.
- 12. Under the guidelines, as currently interpreted, the Bank could make available 10 percent of the agreed lending program, or about \$200 million for buying back debt. (Using the alternative formulation of 25 percent of likely adjustment lending would produce a smaller total). The guidelines permit

significant "frontloading" where there is strong economic performance and a clear need for it in the debt reduction program and indicate that the Bank may consider a separate and shorter time limit for the availability of funds for the debt operation if it is likely to speed conclusion of negotiations between creditors and lenders.

- 13. While the present plans of the authorities call for a wider menu of debt reduction instruments in the second stage of their operation, and while they are seeking the waivers at this stage necessary to conduct those later operations, the authorities do hope to use some supplemental funds to buy back debt in the first stage. The authorities understand that this request is not consistent with the guidelines, as presently interpreted; nevertheless, they wish it to be considered.
- 14. The commercial bank creditors have agreed to provide a response by September 12. While bank management is favorably inclined toward recommending some flexibility in the support to be provided for the debt package, we would propose to formulate specific proposals after we have been able to assess the nature of the creditor response.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

FFICE MEMORANDUM

DATE:

September 5, 1989

TO:

Messrs. Barber B. Conable and Moeen A. Qureshi

FROM:

Koji Kashiwaya

EXTENSION:

70795

SUBJECT:

Philippines Debt Deal

Since the agreement of August 15, many commercial banks have hinted that they will pledge substantial amount of new money by the BAC meeting on September 12th. So far, Citibank - \$100 million, BOT and MH -\$50 million, BOA - \$35 million, Chase, Chemical, Fuji, Sumitomo, DKB and others \$25 million respectively. The total pledge may amount to \$1 billion or more. Although the commercial banks do not like it, it is possible to use a part of this new money for buyback.

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- It is still not certain how much money for buybacks would come from which sources. According to the Philippine government estimation, \$1 to \$1.5 billion loan will be bought back at the price of 50%, which will require \$500-\$750 million. The Bank and the Fund may allocate \$200 each for set-aside (including buyback) subject to the Board approval. The U.S. and Japan oppose the use of additional resources of the Bank and Fund for buybacks. If the disbursement of bilateral and multilateral aid, especially MAI, materializes before the end of 1989, the Philippines may be able to fund the sufficient money for buyback without tapping the new money coming from the commercial banks.
- On one hand, the Philippines (and maybe the commercial banks) 3. seems to respect the package deal for the time being. On the other hand, the U.S. and Japan hope this package would include debt/debt service reduction under the Brady proposal, for which both governments support the use of the additional portions of the Bank/Fund (\$600 million) and Exim's \$600 million parallel loan. If more than \$1 billion of the total \$7 billion long-term commercial debt is retired through buyback, this \$1.2 billion is enough to provide credit enhancement for all the remaining longterm commercial bank loans (less than \$6 billion).
- Recommendation. The Bank had better wait and see the movement of 4. buyback and new money for the time being. However, the Bank should urgently consider the possibility of increasing the disbursement of its loans to the Philippines, thus allowing it to build up reserves for buyback. The Bank should also sound out possible funding sources -- the Philippines, main donors of MAI, and the Fund -- on their positions on financing of debt buybacks.

cc: Messrs. Karaosmanoglu, (AS1VP), Kaji, (AS2DR), Ikram, (AS2CO) Bock, Shilling, Toft, Flannery (CFS)

KKashiwaya:ap

THE WORLD BANK

September 6, 1989

Mr. Conable:

Attached are a few brief remarks that I will make tomorrow at the Financial Sector review.

MOEEN A. QURESHI Senior Vice President, Operations Mr. Chairman, Members of the Board:

Thank you for the opportunity to make a few remarks before turning to Mr. Levy to present the report to you. This Task Force was established to review our approach to financial sector loans because of the increased urgency of financial sector development in our borrowing countries and because of the significance of such operations in our overall lending program. I was also aware that the financial sectors in a number of our borrowering countries had fallen into serious difficulties, and I wanted to be assured that what we are doing makes sense in the changing circumstances in which our borrowers find themselves.

I have maintained close contact with the Task Force's work throughout, and the report has been intensively reviewed by management. The agenda it sets out is a difficult one, and its implementation will require considerable sensitivity and determination on our part. We fully support the thrust and directions of its recommendations, and, if the Board concurs, we intend to vigorously pursue them. I believe that the result of that effort will be a higher quality lending program and important support to our borrowers' own efforts to improve resource mobilization and the efficiency of investment.

I will now ask Mr. Levy to introduce the report, and I am anxious to hear your comments and questions.

FROM:

THE WORLD BANK/IFC

ROUTING SLIP	08.30.89	
NAME	8/2, ROOM NO.	
Mr. M. Gillette (A	cting AFRVF) J7-243	
Mr. W. P. Thalwit	(Acting SVPOP) H12-	
Mr. B. Conable (thr	ough	
Mr. Qureshi's o	ffice)	
00	Le. Le	
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	
EMARKS:		
TANZANIA - Baker Sand	and TPDC	
Attached please find	response for	
Mr. Conable to send t		
Archer in respect of		
This has been cleared		
been ereared	by mil and	

ROOM NO .:

EXTENSION:

ARBER B. CONABLE

September 1, 1989

The Honorable Bill Archer U.S. House of Representatives Washington, D.C. 20515

Dear Bill:

Further to my letter of August 2 on Baker Sand Control of Houston, we have been informed by the Tanzanian Petroleum Development Corporation (TPDC) that the dispute with Baker has been submitted to their Board, and that the Board resolved to refer the matter to the Government legal machinery for advice. This advice has not yet been provided. We have asked TPDC to see how this can be expedited.

TPDC informs us that they have explained their detailed position to Baker. I hope that this matter will now be cleared up speedily.

Sincerely,

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cleared w/cc:

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- D. Cook (AF6IE)
- G. Nkojo (AF6CO)
- S. Al Habsy (LEGAF)

DRAFT: ESDAFFERN:prgm

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DRAFT: ESDAFFERN:prgm

WORLDBANK TMSS

ZCZC F:EP0620 WUI683 AF6IE AF6C0 .TCP D.S. ********* * AF6IE * ******** 8/25/89

DAR0702
AFAIE
.IBRUDAR
DAR ES SALAMI, TANZANIA, AUG 25, 1987
ATTENTION: DAFFERN

RE. PETROLEUM T.A. AND YR TELEXES OF AUG 17 AND AUG 23 FOLLOWING

RECEIVED FROM MR. BARONGO QUOTE
RE: MAKER PRODUCTION TECHNOLOGY: SS WORKOVERS FOR TWO WELLS

WE HAVE MAD EXHAUSTIVE EXCHANGES WITH BAKER RE: ISSUE. ON 25TH MAY, 1988 WE TELEX MEX IN WASHINGTON AND COPIED SAME TO WORLD BANK OUTLINED SUBSTANC

OF CASE. ESSENTIALLY BAKER PERFORMED DADLY AND COSTS FAR EXCEEDED THEIR TENDER SUM. AMOUNT OF BIN USD. 1.052.250.00. HOWEVER FOR BUDGET PURPOSES THE SUM OF USD.1.25 MILL. WAS SET ASIDE. THEIR TENDER SUM AND CONSEQUENTLY THE BUDGETED SUM COVERED WORKOVERS FOR THE TWO WELLS. BPT HAVE BO FAR BEEN FAID USD. 1.575 WHICH EXCEED THEIR TENDER SUM. BPT DEMAND A GXLSNGER PAYMENT OFADOUT USD.400,000.00. WE CONSIDER THIS UNFAIR. T.P.D.C PUT THIS ISSUE TO THE BOARD AND THE BOARD RESOLVED TO REFER THE MATTER TO GOVT. LEGAL MACHINERY FOR ADVICE. THAT NOTWITHSTANDING THE POSITION OF THE BOARD WAS THAT FURTHER PAYMENTS TO BAKER APPEAR QUESTIONABLE. WE HAVE DETAILED OUR POSTION TO BPT. WE ARE AWAITING TOBE ADVISED BY GOVT. ON THE MATTER. SHOULD YOU NEED MORE INFORATION, PLEASE FEEL FREE TO: "CONTACT US.

BEST REGARS S. BARONGO MANAGING DIRECTOR TPDC/DSM UNQUOTE DEGARDS: PORTER

143050 1109 250888 91710171 387

WORLD BANK OTS SYSTEM SENIOR VICE PRES: OPERATIONS

CORRESPONDENCE DATE: 89/08/02 LOG NUMBER: 890803013	DUE DATE : 00/00/00 FROM : EXC
	ARCHER RE BAKER SAND CONTROL OF HOUSTON
OFFICE ASSIGNED TO FOR ACTION:	
ACTION:	
PLEASE HANDLE	
FOR YOUR INFORMATION FOR YOUR REVIEW AND RE	COMMENDATION
FOR THE FILES PLEASE DISCUSS WITH	
PLEASE PREPARE RESPONS	E FOR SIGNATURE
AS WE DISCUSSED RETURN TO	
COMMENTS : PRIORITY #2	
	G (PLEASE SEE MR. CONABLE'S LETTER OF 8.2)

890803013

. WORLD BANK OTS SYSTEM OFFICE OF THE PRESIDENT

69 AUG -3 PM I:: na

		12		1 : 1 1: 110
RESPONDENCE	DATE: 89/07/11		DUE DATE : 00/0	0/00
LOG NUMBER :	890731010	FROM : B	Bill Archer	
SUBJECT : Bake	er Sand Control of	Houston & the	Tanzanian Petrole	um Dvlp.
Corp	oration (TPDC) -	follow up to co	rrespondence of 1	ast Aug. 7.88
OFFICE ASSIGNE	ED TO FOR ACTION:	Mr. M. Qure	shi (E-1241)	4.5

ACTION:	APPROVED PLEASE HANDLE (See Comments) FOR YOUR INFORMATION	
	FOR YOUR REVIEW AND RECOMMENDATION	
	FOR THE FILES PLEASE DISCUSS WITH	
	PLEASE PREPARE RESPONSE FOR AS WE DISCUSSED	SIGNATURE
	RETURN TO	

COMMENTS :Attn. MAQ's office: Mr. Conable has sent reply. Attached is forwarded for appropriate update/attention by Southern Africa cc: Mr. Coady, Mr. Aguirre-Sacasa

-Sf

" ARBER B. CONABLE esident

August 2, 1989

Dear Bill:

Thank you for your letter of July 11 following up on the contract dispute between Baker Sand Control of Houston and the Tanzanian Petroleum Development Corporation. For some unexplainable reason, your letter only arrived on July 31st.

As a neutral third party, we continue to encourage TPDC and the Government of Tanzania to resolve this dispute. I have forwarded your letter to the Southern Africa Department of the Bank for any further update and for continued attention to this important matter for your constituent company.

Sincerely,

Breley

The Honorable Bill Archer U.S. House of Representatives Washington, D.C. 20515

JOINT COMMITTEE IN TAXATION Congress of the United States House of Representatives Washington, DC 20515 WASHINGTON OFFICE: 1135 LONGWORTH HOUSE OFFICE BUILDING (202) 225–2571

1.1-1010

DISTRICT OFFICE:
FEDERAL OFFICE BUILDING
HOUSTON, TX 77002
(713) 229-2763

July 11, 1989

The Honorable Barber B. Conable President
The World Bank
Washington, D.C. 20433

Dear Barber:

I am writing in follow up to our correspondence last August relating to the ongoing contract dispute between Baker Sand Control of Houston, Texas, and the Tanzanian Petroleum Development Corporation (TPDC). Copies of your letter and a follow-up letter from Judith Maguire, Chief of the World Bank's Public Affairs Department are enclosed for your review.

You may recall that I contacted you to request the World Bank's assistance in securing the Tanzanian Government's cooperation in resolving this matter. I fully understand that under the terms of the World Bank's agreement with TPDC, the Bank has no legal ability to dispurse the additional amount owing to Baker Sand Control under the contract without an official request from the Tanzanian Government. My purpose in contacting you once again is simply to request that the World Bank continues to vigorously press the Baker Sand Control payment issue in future meetings with representatives from the Tanzanian Government.

Many thanks for your assistance in this matter.

Mi

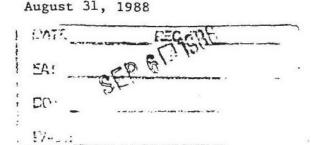
Member of Congress

BARBER B. CONABLE President

> Honorable Bill Archer Member of Congress Congress of the United States House of Representatives Washington, D.C. 20515

> > Bill -

Dear Congressman Archer:



Tanzania: Petroleum Development Corporation

Thank you for your letter of July 28 concerning Baker Sand Control of Houston. The United States Executive Director of the Bank, Mr. Keating, has received an identical letter sent by Baker to Senator Gramm. I am glad to be able to give you the facts surrounding the disputed account as we know them, and trust you will help us to assure Baker that the Bank has done what it can do to help the parties resolve their dispute.

The contract between Baker Production Services (UK) Ltd, located in Maidenhead, England, with the Tanzania Petroleum Development Corporation (TPDC), dated June 12, 1985, was for the workover of two gas wells in Tanzania. Baker Production Services (UK) Ltd is a subsidiary of Baker Sand Control. The contract was for US\$1,062,250 plus equipment rental at US\$11,850 per day expected to be for 30 days. After various delays and problems in undertaking the work, Baker Production Services submitted a bill for US\$2,182,373.59, an overrun of 105%. After discussions Baker and TPDC reached a working level agreement at US\$2,067,224.87. We understand, however, that this amount was not agreed to by TPDC's management.

At the request of TPDC we have made payments totalling US\$1,575,000 to Baker from the International Development Association (IDA) credit, and this exhausts the money available under the credit for this work. TPDC was advised that if TPDC wished to use additional amounts from the IDA credit, we would expect the Government to request an amendment of the credit agreement, and to fully justify the reasonableness of the cost overrun and its legal liability for payment. We have received no such request. Under the terms of our agreement with the Borrower we are not in a position legally to disburse funds from the Credit without an official request from the Borrower.

We understand from TPDC that they do not accept that further sums are due to Baker and that they regard the account as under dispute. We have not taken a formal position on this, nor as we are not a party to the contract, have we any standing to do so. Accordingly, IDA has urged TPDC and the Minister on several occasions to decide whether it will pay the balance of this account, and to let Baker and IDA know of its formal decision. The issue was taken up yet again with the Minister in May and with TPDC in June, and as recently as last week, however to no effect. We will continue to press TPDC to make a decision on this.

I hope that this sufficiently explains the current position and why we feel Baker's recourse lies only with the Government of Tanzania and through the exercise of its contractual rights.

My very best regards.

Sincerely,

Barber B. Conable

Bruse Carolle

President

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U.S.A.

Washington, D.C. 20433 Cable Address: IITBAFRAD Cable Address: INDEVAS

January 6, 1989

The Honorable Bill Archer House of Representatives 515 Rusk Houston, TX 77002

Dear Congressman Archer:

Thank you for your letter of October 20, 1988, and the attached letter from Mr. Trahan, Vice President, Eastern Hemisphere Operations for Baker Sand Control. First let me apologize for my late response.

World Bank staff examined the matters raised in your letter when responding to a similar letter sent by Baker Sand Control to Senator Gramm; that letter was subsequently forwarded to Mr. Keating, Executive Director to the World Bank for the United States My response to your request to investigate the situation must be the same as Mr Keating's to Senator Gramm: that unfortunately there is nothing further the World Bank can do to be of assistance to your constituent. Contract disputes, which do occur from time to time, must be settled by the parties to the contract according to the procedures set forth in that contract. Although firms frequently turn to the World Bank for assistance in these difficult matters, the Bank has no legal. standing to assist, and must confine itself to the limited role of encouraging communication between the parties.

We believe that the Bank has done and is doing everything it properly and legally can to get the parties to the dispute to talk to each other. As Mr. Keating explained in his letter to Senator Gramm, Bank staff raised the Baker payment issue with a representative of the Tanzanian government during his recent visit to Washington. At that time the Minister explained to us that the matter had not been brought to TPDC's Board, and that no payment could be made until a full report had been made to the Board and a formal decision taken. He also pointed out that TPDC was not fully satisfied with Baker's performance, and that TPDC staff felt that some part of the cost overrun was Baker's responsibility. This was the first official clarification the Bank had received of TPDC's internal procedures for dealing with this kind of contract dispute. We understand that the Minister talked to representatives of Baker during his visit, and we

for dealing with this kind of contract dispute. We understand that the Minister talked to representatives of Baker during his visit, and we expected that he would explain the procedural issues to them in the same manner.

Eaker's contract dispute with TPDC. However, as a neutral third party, our staff continue to press TPDC and the Government to move toward a resolution of this dispute.

Thank you for letting us know of your interest in this matter.

Sincerely,

Judith Maguire

Chief, Public Affairs