McNamara's: Finance Committee August 1980 to June 1981 Vol. 5

The World Bank

OK
Let's talk!

FL FC

August 15, 1980

Members of the Finance Committee

Please find attached a paper on "Debt and Debt Servicing" problems prepared by the Policy Planning and Program Review Department in collaboration with FPA. I assume it will be considered by the Finance Committee in early September.

It recommends consideration of several actions:

(a) expanded debt relief for the poorest countries (p. 8)
(b) liberalization of Paris Club operations (p. 11)
(c) more Bank policy advice and economic work in country specific issues (p. 12)

Detailed questions may be addressed to Mr. Hicks (ext. 60138).

Joe Wood

August 7, 1980

Office of the President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Brandt Commission Recommendation No.7 Related to the Debt and Debt Servicing Problems of Developing Countries 1/

Recommendation: "...the various international institutions begin immediately to study and articulate the range of likely debts and debt servicing problems as they are emerging, and the likelihood of existing private and public institutions being able to meet these needs" 2/

I. Introduction

Debt problems are often the result of a combination of circumstances in which poor debt management policies interact with both inadequate financial and economic policies, and adverse external conditions. In practice, it is almost impossible to identify a debt service problem as distinct from general problems of balance of payments management.

External capital flows offer the opportunity for countries to acquire the use of real resources for investment and other purposes, but these benefits must be judged against the risks associated with rising debt service burdens in the balance of payments. Capital inflows can be used to create productive capacity which in turn might generate a repayment capacity in terms of export earnings, or they might be used to offset temporary reductions in export earnings, or to allow time for structural adjustments to higher import costs. In all of these cases, there are risks that the conceived strategy may not work; export markets may be limited, commodity prices may not recover, or policy steps may not be taken to restrict imports. Countries more dependent on primary commodities with highly variable prices, with limited export potentials and with limited capacities to adjust to external shocks, are less well placed to acquire large external debt burdens, and do so with greater risk of eventually encountering difficulties.

This note explains the evolution of existing debt and debt service situation for the developing counties, both in the aggregate and at the country level. Recent changes in the terms, conditions and types of capital flows are also briefly reviewed, as well as debt service prospects for the future. A final section considers a possible international response to the emerging debt servicing problems of the developing world, including the role of the Bank.

1/ The reference is to the order of recommendations listed in SecM-128, dated February 22, 1980.

2/ Willy Brandt, North-South: A Program for Survival, p. 239.

II. Current Situation and Prospects

Since 1973, oil importing developing countries have been faced with the prospect of larger current account deficits because of rising import costs and a more unstable external environment. Commodity prices have tended to exhibit wide fluctuations and, while manufactured exports have accelerated in volume terms, their growth has often been affected by the imposition of quantitative import restrictions in the developed countries.

Thus, in an era of increased uncertainty, most countries have been increasing the level of their external borrowings as a means of stabilizing their balance of payments situation without reducing the level of investment and growth. As a result, the debt outstanding of the developing countries grew at an annual rate of about 20% per year during the period 1973-1980, 1/ and reached an estimated level of $410 billion by the end of the period. While this appears to be large in comparison to the level of only $114 billion in 1973, much of the increase is due to inflation. In real terms, total debt grew during the period at about 6.8% per annum, compared to a growth rate of 5.3% for the GDP of the developing world, and 5.1% growth in the volume of exports. Thus, debt outstanding at the end of the decade was both absolutely and relatively higher than at the beginning of the decade. Total debt outstanding and disbursed for the oil importing countries will amount to 22% of their GNPs at the end of 1978, compared to 17% in 1973. For the capital deficit oil exporters, this ratio exceeds 29% (see Table 1).

Table 1: DEBT OUTSTANDING AS A PERCENT OF GNP

	1973	1974	1975	1976	1977	1978
Oil Exporters (capital deficit)	19.8	17.0	19.6	23.9	26.8	29.4
Oil Importers	17.3	17.0	18.6	19.1	20.1	22.0
Low Income	17.6	17.0	18.2	20.1	19.9	19.4
Middle Income	17.3	16.9	18.8	18.9	20.2	22.8

Source: EPD (36 country sample).

Another indicator of debt service trends is the debt service ratio, or the ratio of debt service to total export earnings. 1/ Debt service ratios for the low income oil importing income countries, which rely primarily on concessionary aid, have remained stable at about 10-13%. In recent years, debt service ratios for these countries have actually fallen, largely as a result of inflation reducing the real burden of nominal debt repayments. For the capital-deficit oil exporters, on the other hand, the debt service ratio has increased from about 9% in 1974 to an estimated 21% in 1978, and those for the middle income oil importers from 18% to 25%. Large increases for these countries reflects their greater access to private capital markets in recent years (see Table 2).

Table 2: DEBT SERVICE RATIOS
(debt service: exports goods and services)

	1974	1975	1976	1977	1978
Oil Exporters (capital deficit)	9.3	11.4	12.9	16.0	21.4
Oil Importers	19.6	22.5	20.8	21.2	22.3
Low Income	13.5	13.1	11.6	10.1	10.3
Middle Income	18.4	22.1	20.2	20.3	24.8

Source: EPD (36 country sample).

It is impossible to say, however, whether debt service is more of a "problem" now then it was in 1974. These aggregate numbers indicate a growth in the relative size of debt service when compared to GNP and exports. Whether the present or future debt and debt service will become in some sense "unmanageable" will depend on a host of other factors affecting the balance of payments, and needs to be considered on a country-by-country basis. The debt service ratios in Table 2 are somewhat misleading, moreover, since they combine countries with large exports and little or no debt with major debtor countries. In addition, the debt service ratios exclude short-term debt which in many countries has risen sharply in recent years and has become a major cause of balance of payments problems.

As mentioned above, changes in these aggregate ratios have arisen not only because developing countries are borrowing larger amounts of capital but also because of an expanded use of private capital borrowings by the oil-exporting and middle income oil-importing countries. This has taken the

1/ There is considerable question over the utility of this ratio, particularly in an era of rapid price inflation and greater access to private capital markets. It is used here largely to give an indication of the relative size of debt service in the balance of payments of the developing world.

form of borrowings from banks and bank syndicates, as well as greater use of the international bond market. For the developing countries, the advantage of such borrowings lies in the fact that they are not tied to the purchase of specific goods as supplier's credits are, and thus can be used for refinancing of debt payments. Furthermore, they are quick disbursing loans that are not encumbered by the conditions usually associated with bilateral or multilateral official lending.

Unlike the fixed interest official or private export credits, however, these international bank loans generally have interest rates which are pegged to the LIBOR (London Interbank Offered Rate), by the use of a spread of .75 - 2.5 percentage points above the LIBOR. Hence, the interest cost of these obligations varies with market conditions, and future debt service obligations are more difficult to anticipate.

As a result of the increased reliance on private sources of credit, the average terms of new loans to LDCs have considerably hardened. This is attributable to two effects: a combination of the composition of borrowings and changes in average terms within each category. As shown in Appendix Table A-4, the average interest rate on borrowings by oil importing developing countries rose from 5.1% to 7.8% between 1970 and 1980, and average length of maturities fell from 21 to 16 years. As a result, while the external debt generally has not grown out of proportion to GNP, the shortening of maturities and higher interest rates have increased the debt service burden. Thus, the debt service ratios have risen faster than the ratio of debt outstanding to GNP. However, when looking at debt service obligations, it is necessary to consider the erosion of the real value of past debt because of inflation.

Country Situations

Dealing with highly aggregative numbers is somewhat misleading since debt service problems are essentially country problems. Trends in debt service ratios for selected oil importing countries (Table A-3) indicate that 70% have had rising debt service ratios over the 1974-79 period. In some cases, the increase is quite sharp. For instance, Turkey's debt service ratio rises from 6.8 to 30.2, Ivory Coast from 14.4 to 23.3, Morocco from 5.8 to 24.8, and Brazil from 34.1 to 66.5. In some cases, the debt service ratios have not risen because the countries have benefitted from debt reschedulings.

The debt service ratio is admittedly a very rough indicator of debt service problems, since creditworthiness depends on repayment prospects rather than on the size of existing debt service or the debt service ratio.

1/ The exact amount is difficult to determine since not all bank loans have variable interest rates.

Some countries with high debt service ratios, such as Brazil, have managed to avoid a debt service "problem." On the other hand, countries with relatively low debt service ratios had to seek debt relief.

A review of recent case studies of countries having debt problems illustrates both the similarities and differences between various countries, and the interrelationships between debt and other problems. After 1973, many countries faced larger balance of payments deficits because of higher cost of oil and other imports. Because of favorable trends in export earnings, some countries were able to finance this deficit with private capital borrowings. Creditworthiness was imperiled in some cases by a sudden downturn in primary commodity prices (Philippines, Zaire) or a decline in export volumes (Peru, Sudan). In the case of Turkey, the crisis was accelerated by a decline in worker's remittances and little growth in manufactured exports, while in Sudan the problem was exacerbated by a decline in official aid.

At the same time, many governments used external borrowings to avoid a reduction in either their planned investment programs or in private or public consumption levels. In certain cases, foreign borrowings were not devoted to the kinds of activities that would create an eventual repayment capacity or reduce dependence on imports. Funds were used for investments with marginal returns lower than the cost of capital, or to finance military expenditures, or to finance projects with long gestation periods. In some cases, creditors have made loans without regard to appropriateness of the terms for the particular borrower and with insufficient concern about the manner in which the resources were used.

For many countries, the combination of weak domestic investment and expenditure policies, plus adverse external events, resulted in a balance of payments situation so severe as to necessitate a debt rescheduling (Sudan, Turkey, Zaire, Sierra Leone, Peru). Some countries which borrowed heavily in private markets, at the same time managed to undertake programs of structural reforms which helped reduce their balance of payments problems (Brazil, Philippines). Those countries which have borrowed heavily but have not made adequate adjustments to higher energy prices face a difficult situation: they carry a relatively high debt service burden (Jamaica, Turkey).

Debt Service Prospects

Projections undertaken for the World Development Report indicate that the overall debt service ratios are likely to rise through 1985, and then decline. For the oil importing countries shown in Table 3, the overall debt service ratio is projected to rise from an average of about 21% in 1977 to an estimated 23% in 1980, and to 26% by 1985, largely as a result of increased borrowings from private capital markets. While the ratios for the low income countries are estimated to remain in the 10-12% range, those for the middle income countries are expected to rise to an average of 29% by 1985 (compared to about 20% in 1977).

Table 3: DEBT SERVICE RATIOS

	1977	1980	1985	1990
Oil Importers	21.2	22.9	26.0	20.7
Low Income	10.1	9.1	11.3	11.5
Middle Income	20.3	25.7	28.6	22.1
Oil Exporters (capital deficit)	16.0	15.4	13.5	12.9

Source: EPD (36 country sample).

It should be noted that these projections of debt service ratios are highly dependent on assumptions about trade prospects, import requirements and capital flows. For instance, the LDCs are assumed to grow at an average overall rate of 5.3% during the decade, while exports grow at 5.9%. The current account deficit is projected to decline from 3.9% of GNP (1980) to 2.1% in 1990 (high case). Export growth of the projected magnitude depends on an acceleration of growth rates in the industrialized countries, with declining or stable levels of tariff and nontarriff protective barriers, which may prove to be an optimistic expectation. For instance, if the export growth rate were to be one percentage point less than projected, the overall debt service ratio for the oil importers would increase from an expected 20.7% in 1990, to 27.9%. 1/ This in turn depends on developing countries having access to private capital to finance the larger deficit caused by the shortfall in export earnings.

The middle income countries, which have enjoyed reasonably good access to private capital markets in the recent past, may be faced with more limited possibilities in the future. There is growing concern among banks and bank regulators over the exposure of commercial banks in developing countries, dwindling capital/asset ratios, and the need for greater control and regulation. It is not clear, however, to what extent recent declines in bank lending to developing countries arise from higher interest rates and lower spreads, versus a reluctance by banks to extend their exposure. For these countries, the issue may not be one of debt service, but rather one of the inadequacy of future capital flows. Debt service problems in individual countries may arise if private creditors misjudge prospects and economic management capabilities, and thus become over-extended. These issues are explored in greater depth in the paper "Prospects for Capital Flows to Developing Countries" (R80-211), which was discussed by the Board on August 5, 1980.

1/ This assumes that the total debt service on new capital inflows equals 15% of the debt outstanding; and refers to the sample of 25 oil importing countries only (see Table 3).

The low income countries generally lack access to private capital markets. This prevents them from accumulating large amounts of debt on terms which could create difficulties. They are likely to be faced, however, with major adjustment problems caused by higher oil prices, slower OECD growth and inadequate levels of concessionary assistance. While debt service obligations are likely to remain an important element in their balance of payments, it is not likely to become the main cause of their balance of payments problems.

IV. The International Response to Debt Problems

Debt problems in developing counries have generated two broad types of responses by the international community; first, for the low income countries there has been a limited agreement on generalized debt relief on past ODA credits. Secondly, for countries with serious debt problems, there has been continued use of the Paris Club and other arrangements for debt relief. Because of the importance of these two responses, their characteristics are analyzed below.

Generalized Debt Relief

For a considerable period, developing countries have requested generalized debt relief as a means of affecting a rapid transfer of resources for their development. The developed countries, on the other hand, have argued that debt relief should be based on a "case-by-case" approach considering each country's needs. Some of the more advanced developing countries also opposed generalized relief because they feared that it would reduce access of the affected countries to private capital markets. After a considerable period of negotiations, agreement was reached at the UNCTAD Trade and Development Board in 1978 on a compromise whereby the members of DAC would grant to the least developed countries "retro-active terms adjustment" or equivalent measures (new aid), in order to ease the debt service burden of past ODA loans. Within this general framework, donors agreed to conclude bilateral agreements with recipient developing countries. This agreement recognized that the terms of present ODA loans were often more concessional than past loans, and some action was warranted to harmonize present practices with the terms of past debt. Indeed, many donor countries have recently moved from ODA loans to grants, particularly for the least developed countries.

The total amount of debt relief announced so far by ten DAC countries indicates the cancellation of about \$4.87 billion of outstanding ODA credits and the elimination of about \$.84 billion in future interest. The actual amount of debt relief must be negotiated between the countries involved, so that these figures are approximate. Donor participation in the UNCTAD program has varied, with substantial relief coming primarily from the United Kingdom and West Germany.

The beneficiary countries also vary widely. Since retroactive debt relief of this type was extended largely to the least developed countries (with some exceptions, see Table A-8), many low income countries received little, if any, benefit. The excluded countries tended to be those holding the bulk of the debt of the low income countries (e.g., India, Pakistan). For instance, the amount of total debt relief given so far -- less than $5 billion dollars -- is relatively small compared to the total external debt of the low income countries of approximately $43 billion, of which $29 billion is from concessionary bilateral sources (end 1978). Some creditor countries object to this kind of "back door" financing of development assistance, and further debt relief authorizations may be no easier to obtain than appropriations for new concessional loans. Several countries have indicated, furthermore, that their generalized debt relief operations will not be additional to their total development assistance effort. On the other hand, this exercise has probably been successful in increasing the proportion of DAC assistance which is transferred in a quick disbursing form.

As a response to the proposals of the Brandt Commission, the international community should seriously consider:

- agreeing to a more complete and rapid implementation of the existing UNCTAD agreement to provide assistance additional to current levels;

- extending this agreement to include all oil-importing, low income developing countries.

Multilateral Debt Renegotiations

The majority of debt relief operations in the recent past have been handled through informal creditor club arrangements, or, in a small number of cases, through the use of aid consortia/consultative groups. The creditor club arrangement began in 1956 when a group of creditor countries met in Paris under French chairmanship to consider the renegotiation of supplier credits extended to Argentina, and insured by the creditor governments. The Paris Club 1/ was, and remains, an informal organization with no legal structure or secretariat, organized principally to handle the rescheduling of insured supplier credits, but gradually extended to cover official loans and credits. The informality of the organization is viewed by its members as an advantage, since it permits ad hoc arrangements to be made in each case, and does not establish institutional recognition of a permanent need for debt relief. However, certain general principles have been developed for dealing with debt reschedulings within the group. These include:

- The country seeking debt relief must be in a situation where default is an imminent prospect in the absence of relief;

- all participating creditor countries agree to negotiate bilaterally the same or similar terms of repayment;

1/ The term Paris Club is used here also to include creditor club arrangements which sometimes meet in other European capitals under non-French chairmanship.

- the terms of debt relief are to be non-concessional, and the amounts rescheduled are to consolidate debt over a relatively short period (one to two years);

- debt relief is not normally to be extended for short-term trade credit;

- debtors agree to seek comparable or better concessions from non-participating governments and private creditors as a condition of official relief;

- debt relief is not directly associated with development assistance or longer-term development needs;

- debts once rescheduled are not to be rescheduled again.

The aim of these general principles is to insure equal treatment of all creditors, and to provide for an orderly repayment of debts on commercial terms while attempting to preserve the creditworthiness of the debtor. There have been, however, important exceptions to these guidelines. For Indonesia (1970) and Ghana (1974), debt relief was granted on concessionary terms, while reschedulings for Zaire (1979) included short-term trade credits. Paris Club agreements for Ghana (1970) and Zaire (1979) also included the rescheduling of debts already previously rescheduled. Thus, the rules are not fixed and each country is treated on a case-by-case basis. Much less stringent rules apply to those countries seeking debt relief through the aid consortia/consultative group mechanism (India, Pakistan, Turkey). Consolidation and repayment periods are often longer, and interest rates are often more concessionary.

As a matter of procedure, the Paris Club normally requires the debtor country to adopt a stabilization program supported by the IMF through an IMF standby agreement or extended arrangements, which often contains limits on new borrowings. This allows the creditor countries to involve the international institutions in the formulation of corrective programs in the debtor country. Since 1961, both the staffs of the IMF and the Bank have been invited to attend the meetings as observers, and are increasingly asked to supply technical information and advice on the debt situation.

The developing countries have often complained about the <u>ad hoc</u> nature of the Paris Club arrangements, which they feel results in unequal treatment between different countries, ignores the long-term development needs of the debtor countries, and places the developing country at a disadvantage since the arrangements are dominated by the creditor countries. The developed countries have resisted more permanent arrangements because they do not want debt relief to be considered a form of aid, nor do they want it to become a standard or usual practice. At the same time, the hard terms of relief granted, and its short consolidation and repayment period, often necessitate further reschedulings. A review of the history of multilateral debt renegotiations indicates that since 1956 there have been 44 reschedulings, involving 14 countries (see Table 4). Excluding three countries where reschedulings have been handled in consortia/consultative groups, the Paris Club has handled 29 reschedulings for 11 countries. While the Paris Club arrangements are designed to resolve debt crises, their relatively short-term focus sometimes creates the basis for a repetition of the debt rescheduling exercise. This is often true when rescheduled interest and repayments are added to already severe future debt payments on non-rescheduled debts.

Table 4: MULTILATERAL DEBT RENEGOTIATIONS

Period	Number of Renegotiations	Number of Debtor Countries Involved
1956-1960	2	2
1961-1965	6	4
1966-1970	10	4
1971-1975	13	5
1976-1980 /a	13	6
Total	44	14 /b

/a Through July 1980.
/b Argentina, Brazil, Cambodia, Chile, Ghana, Indonesia, India, Pakistan, Peru, Sierra Leone, Sudan, Togo, Turkey, Zaire.
Note: See Table A-7 for details.

In many cases, provision is made for only short-term debt relief in order to give an incentive to the country to comply with the agreed program. These agreements often contain a "goodwill clause," which indicates the willingness of the Club to consider further reschedulings if the country adheres to the present agreement. It is not clear, however, how successful this "carrot and stick" approach has been in practice. Countries on the verge of an actual debt default have often been able to obtain a rearrangement of their debt from the Club members regardless of their past performance with regard to IMF standbys or previous Paris Club agreements.

The previous discussion of country experience with Paris Club negotiations, and the discussion of the structure of the Club arrangements in general, suggest that some improvements in the existing situation would be desirable. Some possibilities, most of which have been discussed before, 1/ include:

1/ Similar measures have been recommended in the Bank's World Development Report 1979.

- consideration of debt problems in the broader framework of the more general problem of development, including the long-term balance of payments situation and the likely impact of debt reschedulings on it;

- search for longer-term and more permanent solutions for debt crises, as compared to the present series of "short-leash" operations which necessitate repeated reschedulings;

- use of concessionary terms for debt reschedulings where this would improve the prospects for an orderly and more permanent solution for the problem;

- greater use of more imaginative and more flexible arrangements that permit automatic adjustments to the rescheduling terms as economic conditions change (such as the use of "bisque clauses"). 1/

It is doubtful, however, whether the creditor countries will be willing to agree to a change in the present procedures and focus of the Paris Club. Proposals along the above lines have often been made previously but have not found any positive response.

The importance of the Paris Club itself may diminish in the future, as the focus of debt problems shifts toward unguaranteed debt owed to private creditors. Recent Paris Club agreements have often been paralleled by similar agreements with commercial bank lenders. In these cases, the debtor country will often ask the largest creditor bank to chair a meeting at which the major banks agree to common terms for a lengthening of debt maturities, with these terms then being applied to all banks equally. Greater cooperation between the Paris Club and private lenders may prove useful in order to insure a consistent treatment of private and official debt, and the maintenance of access to private capital markets.

V. The Role of the Bank

It is difficult for the Bank to take a leadership role in dealing with problems of developing country indebtedness because of its preferred creditor status. In order to maintain a high standing in international capital markets,

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1/ A "bisque clause" written into the Agreed Minutes of the debt renegotiations permits the debtor, under certain circumstances, some agreed amount of further debt relief without cumbersome renegotiations.

the Bank has not participated in reschedulings of its own outstanding loans. Changes in this posture would not appear wise, since it could result in higher borrowing costs and thus higher interest rates for its member countries. Despite these limitations, there are a number of things the Bank can do to assist countries with debt problems, or to prevent such problems from arising.

Preventive actions which keep debt problems from arising are to be preferred to curative actions that must be taken once the debt and balance of payments situation becomes unmanageable, since they forestall the decline in creditworthiness and access to capital markets that usually follow a debt "crisis." Actions of this nature, which the Bank has undertaken in the past and might do more of in the future include:

- becoming more active in advising countries on ways to avoid debt servicing problems through more prudent management of their balance of payments;

- giving more assistance to countries in the fields of debt reporting and debt management, particularly to the poorest developing countries.

Policy advice on balance of payments management is, of course, a difficult area which must consider country development priorities and political and social sensitivities. More fundamentally, a restructuring of the balance of payments will require a restructuring of the underlying foreign trade and productive sectors of the countries concerned, a process that the Bank can support with its programs of structural adjustment lending.

On the curative side, there are also a number of steps the Bank can take to increase its involvement in the resolution of debt difficulties of its member countries. For instance, it could:

- take a more active role in offering technical advice in debt renegotiations, including assistance to developing countries in the preparation of their negotiating positions;

- present to Paris Club meetings, when requested, detailed evaluations of the medium-term prospects and needs of the country concerned, and the impact of alternative debt relief solutions on development prospects; and

- take actions, in its role as chairman of various aid consultative groups, to have debt problems discussed in these groups in the context of overall development prospects, particularly when Paris Club debt relief seems likely.

List of Appendix Tables

APPENDIX
Table A-1

Table A-1: DEBT OUTSTANDING AND DEBT SERVICE
($ millions)

	1973	1975	1977	1978	1980 (est.)	Growth Rate (%) 1973-80
Debt Outstanding & Disbursed						
Oil Exporters /a	27,056	44,032	73,891	94,051	124,972	24.4
Oil Importers	86.097	127,400	183,561	224,140	285,000	18.6
Low Income	20,112	25,722	32,576	36,353	43,023	11.5
Middle Income	65,985	101,678	150,985	187,787	241,977	20.4
TOTAL	113,153	171,432	257,452	318,191	409,972	20.2
Deflator (IPI)	63.4	91.1	100.0	115.9	144.9	12.5
Total in 1977 Dollars	178,475	188,180	257,452	274,539	282,934	6.8
Debt Service						
Oil Exporters /a	3,136	5,936	11,154	15,825	18,744	29.1
Oil Importers	8,038	19,203	26,691	36,409	49,711	29.7
Low Income	1,189	1,641	1,852	2,183	3,305	15.7
Middle Income	6,849	17,562	24,839	34,226	46,406	31.4
TOTAL	11,174	25,139	37,845	52,234	68,455	29.6
Deflator (IPI)	63.4	91.1	100.0	115.9	144.9	12.5
Total in 1977 Dollars	17,625	27,595	37,845	45,068	47,243	15.1

/a Excludes capital surplus oil exporters.

Source: External Debt Division, EPD, and WDR projections.

April 30, 1980

APPENDIX
Table A-2

Table A-2: DEBT OUTSTANDING BY TYPE OF DEBT

($ million)

	1973	1975	1977	1978
Oil Exporters				
Bilateral	8,918	13,456	18,890	22,473
Multilateral	2,599	3,801	7,169	8,937
Private	15,539	26,774	47,832	62,641
Total	27,056	44,032	73,891	94,051
of which Concessional:	8,206	11,524	17,022	20,317
Oil Importers				
Bilateral	32,109	41,262	53,847	62,232
Multilateral	10,335	15,508	22,344	27,386
Private	43,653	70,630	107,370	134,522
Total	86,097	127,399	183,561	224,140
of which Concessional:	30,915	39,656	52,676	60,635
Total				
Bilateral	41,027	54,718	72,737	84,705
Multilateral	12,934	19,309	29,513	36,323
Private	59,191	97,404	155,202	197,162
Total	113,152	171,431	257,452	318,190
of which Concessional:	39,121	51,180	69,697	80,952

Source: EPD, Debtor Reporting System.

Table A-3: DEBT SERVICE RATIOS FOR SELECTED COUNTRIES, 1973-79

	1974	1975	1976	1977	1978	1979
I. Oil Importers						
Low Income						
Bangladesh	5.6	16.3	12.9	10.2	11.8	12.0
Ethiopia	5.4	7.4	6.6	6.4	7.4	6.6
India	17.3	13.0	10.8	9.8	9.8	8.7
Kenya	8.0	11.6	13.5	12.0	14.9	10.8
Madagascar	3.5	3.5	3.9	3.1	3.4	6.6
Pakistan	14.5	15.7	15.4	13.7	12.4	13.8
Sri Lanka	12.0	21.7	20.0	14.5	9.2	7.1
Tanzania	6.6	7.7	5.8	6.3	7.0	7.2
Middle Income						
Argentina	25.3	38.2	30.5	25.1	37.1	25.5
Brazil	34.1	40.4	36.2	39.3	50.6	66.5
Chile	18.2	39.6	40.0	44.1	45.8	42.6
Colombia	21.3	14.4	12.6	11.1	11.9	10.9
Ghana	4.4	6.3	6.7	4.1	4.9	3.6
Guatemala	4.7	2.6	5.9	4.0	6.4	8.8
Ivory Coast	14.4	15.7	14.5	15.5	20.1	23.3
Korea	11.0	12.4	10.4	9.9	11.3	11.4
Morocco	5.8	5.8	6.8	10.7	19.7	24.8
Peru	35.5	41.2	44.9	46.6	45.5	41.8
Philippines	12.0	12.8	14.6	14.1	26.6	18.1
Senegal	6.3	6.0	6.0	7.0	14.9	15.4
Sudan	14.3	21.8	14.1	7.5	9.4	20.2
Thailand	9.1	12.6	10.9	10.5	16.1	10.3
Turkey	6.8	7.7	11.2	22.2	26.7	30.2
Yugoslavia	16.9	18.3	16.9	13.6	12.3	16.6
Zaire	12.2	16.6	12.4	10.4	32.6	10.6
Zambia	8.4	13.3	13.6	22.2	34.9	28.4
II. Oil Exporters						
Algeria	13.5	8.8	13.0	15.5	23.0	25.7
Bolivia	18.4	24.2	24.4	30.3	60.1	37.9
Ecuador	8.3	5.4	8.4	8.7	13.1	12.1
Egypt	21.7	22.5	18.5	24.1	22.2	18.8
Indonesia	5.7	10.2	14.6	15.9	16.7	16.7
Malaysia	3.7	4.7	5.8	7.7	9.8	5.3
Mexico	29.0	36.8	43.9	57.0	66.2	31.4
Nigeria	1.9	3.0	3.6	1.2	2.0	1.8
Syria	6.1	7.6	7.5	6.8	15.1	13.6
Tunisia	6.5	6.7	7.1	12.0	13.7	17.9
Venezuela	5.4	7.0	5.9	10.1	9.6	10.6

Source: Economic Analysis and Projections Department. Debt service ratio = total debt service, divided by exports of goods and non-factor services.

Table A-4: TERMS OF LOANS TO DEVELOPING COUNTRIES, 1970-78

	Oil Exporters			Oil Importers		
	1970	1975	1978	1970	1975	1978
Interest Rate						
Concessionary Bilateral	2.9	3.1	2.8	1.9	2.8	3.0
Official Export Credits	6.2	7.2	7.6	6.2	7.8	8.1
Multilateral Loans	4.8	7.6	6.1	5.5	5.6	5.0
Private Source Loans	7.8	8.6	8.7	7.3	8.9	9.9
TOTAL /a	6.0	7.2	7.8	5.1	6.7	7.8
Maturity						
Concessionary Bilateral	28.6	21.8	30.0	32.7	28.7	30.8
Official Export Credits	9.1	9.9	11.0	10.0	11.2	11.7
Multilateral Loans	29.3	22.7	22.5	26.6	29.2	26.5
Private Source Loans	8.4	7.8	7.8	9.9	7.8	9.8
TOTAL /a	17.0	12.3	11.6	20.9	17.7	16.2
Grace Period						
Concessionary Bilateral	8.1	6.9	7.2	10.1	8.7	9.4
Official Export Credits	2.1	4.1	3.5	3.1	4.2	3.6
Multilateral Loans	6.4	5.2	5.8	5.7	6.7	6.2
Private Source Loans	2.2	2.6	3.1	2.6	2.9	2.8
TOTAL /a	4.3	3.9	3.8	5.8	5.1	4.4

/a Includes only public debt.

Source: DRS data.

April 29, 1980

Table A-5: COMMERCIAL BANK CLAIMS ON DEVELOPING COUNTRIES, /a 1976-79

	1976		1977		1978		June 1979	
	$	%	$	%	$	%	$	%
Brazil	18,461	16.71	25,048	16.57	32,941	16.16	35,738	16.13
Mexico	17,885	16.19	20,280	13.42	23,271	11.41	25,807	11.65
Venezuela	6,853	6.20	9,097	6.02	14,048	6.89	16,645	7.51
Spain	7,323	6.63	11,485	7.6	13,195	6.47	14,504	6.55
Argentina	3,260	2.95	4,863	3.22	7,015	3.44	10,550	4.76
Korea	3,701	3.35	5,247	3.47	7,543	3.70	9,392	4.24
Algeria	2,513	2.28	4,415	2.92	7,641	3.75	8,273	3.73
South Africa	7,624	6.90	8,577	5.68	8,099	3.97	7,688	3.47
Iran	3,124	2.83	6,406	4.24	8,887	4.36	7,651	3.45
Yugoslavia	2,227	2.02	3,679	2.43	6,148	3.02	6,972	3.15
Indonesia	4,010	3.63	4,973	3.29	5,819	2.85	5,801	2.62
Philippines	2,953	2.67	3,396	2.25	5,016	2.46	5,666	2.56
Greece	2,855	2.58	4,117	2.72	5,481	2.69	5,503	2.48
Israel	2,033	1.84	2,549	1.69	3,925	1.93	3,890	1.76
Thailand	1,077	0.98	1,831	1.21	2,817	1.38	3,874	1.75
Turkey	2,340	2.12	3,173	2.10	3,777	1.85	3,660	1.65
Chile	985	0.89	1,581	1.05	2,920	1.43	3,644	1.64
Taiwan	2,277	2.05	2,806	1.86	4,175	2.05	3,642	1.64
Peru	2,996	2.71	3,417	2.26	3,575	1.75	3,425	1.55
Portugal	1,012	0.92	1,705	1.13	3,162	1.55	3,332	1.50
Ecuador	779	0.71	1,639	1.08	2,613	1.28	2,821	1.27
Nigeria	284	0.26	810	0.54	2,281	1.12	2,806	1.27
Morocco	534	0.48	1,193	0.79	2,604	1.28	2,794	1.26
Colombia	1,851	1.68	1,763	1.17	2,200	1.08	2,744	1.24
Egypt	1,264	1.14	1,361	0.90	1,811	0.89	2,012	0.91
All Others	10,232	9.26	15,712	10.40	22,901	11.23	22,709	10.25
Total: All Developing Countries	110,453	100.00	151,123	100.00	203,865	100.00	221,543	100.00

/a Excluding off-shore banking centers -- Bahamas, Barbados, Bahrain, Bermuda, Cayman Islands, Hong Kong, Lebanon, Liberia, Netherland Overseas Territories, New Hebrides, Panama, Singapore, and West Indies.

Source: BIS and Federal Reserve (from S. Malik, 4/80).

Table A-6: TERMS OF EUROCURRENCY BORROWING
1972-1979,
DEVELOPING COUNTRIES

	Average Maturity (years)	Average Spread Over LIBOR (%)	Deposit Rates 1/ (6 month)	Approx. Interest Cost (%)
1972	7.3	1.26	6.19	7.62
1973	10.3	0.98	10.13	11.24
1974	8.6	1.13	10.19	11.44
1975	5.4	1.68	6.63	8.44
1976	5.6	1.72	5.38	7.22
1977	6.5	1.55	7.50	9.18
1978	8.7	1.20	12.31	13.64
1979	9.2	0.87	14.44	15.44
1st Quarter	9.1	0.99	10.56	11.68
2nd Quarter	9.2	0.86	10.50	11.48
3rd Quarter	9.0	0.86	12.75	13.74
4th Quarter	9.6	0.80	14.44	15.37

1/ Prime banks' bid rate in London, at or near end of month. LIBOR is generally higher than the bid rate by 0.125.

Source: Based on BIS data.

April 29, 1980

Table A-7: MULTILATERAL DEBT RENEGOTIATIONS

	Year	Number of Renegotiations	Name of Countries
Before	1961	2	Turkey (1959), Argentina (1956)
	1961	1	Brazil
	1962	1	Argentina
	1963	None	--
	1964	1	Brazil
	1965	3	Turkey, Chile, Argentina
	1966	2	Ghana, Indonesia
	1967	1	Indonesia
	1968	4	Ghana, Indonesia, India, Peru
	1969	1	Peru
	1970	2	Indonesia, Ghana
	1971	1	India
	1972	4	Chile, India, Pakistan, Cambodia
	1973	2	Pakistan, India
	1974	4	Chile, Ghana, India, Pakistan
	1975	2	India, Chile
	1976	2	India, Zaire
	1977	3	Zaire*, Sierra Leone, India
	1978	2	Turkey, Peru*
	1979	4	Zaire*, Togo, Turkey*, Sudan*
	1980	2	Sierra Leone, Turkey
	(As of July 1980)		
	Total	44	

* Also concluded agreements with private banks to cover unguaranteed debts.

Source: Compiled from World Bank and U.S. Department of State data.

Table A-8: DEBT RELIEF ON ODA CREDITS BY DAC DONORS, 1978-79
(US$ Millions)

Donors	LLDCs	MSAs	TOTAL
Belgium	2.02	.14	2.16
Canada	218.07	-	218.07
Finland	23.39	4.13	27.52
West Germany	1,805.10	-	1,805.10
Japan	683.00	165.00	848.00
Netherlands	133.00	-	133.00
New Zealand	1.04	-	1.04
Sweden	87.84	154.09	241.93
Switzerland	13.46	44.54	58.00
United Kingdom	168.00	1,367.30	1,535.30
TOTAL	3,134.92	1,735.20	4,870.12

Source: V. Shetty, World Bank (May 1979), based on DAC statistics. Includes only those DAC countries that have made specific commitments for debt relief in response to CIEC and UNCTAD understandings, and covers only the nominal value of the principal outstanding.

Definition of Groups:

LLDCs: Afghanistan, Bangladesh, Benin, Botswana, Burundi, Cape Verde, C.A.R., Chad, Ethiopia, Gambia, Guinea, Haiti, Laos, Lesotho, Malawi, Mali, Nepal, Niger, Rwanda, Somalia, Sudan, Tanzania, Uganda, Upper Volta, Western Samoa, Yemen, Yemen Arab Republic.

MSAs: 1/ Burma, Cameroon, Egypt, India, Kenya, Madagascar, Pakistan, Sierra Leone, Sri Lanka.

1/ Includes only those MSA countries receiving debt relief and which are not on the LLDC list.

OL : Info!

ATTACHMENT 1

File FC

LOAN COMMITMENTS BY
INTERNATIONAL FINANCIAL INSTITUTIONS 1/
(Million US Dollars)

	FY68	FY73	FY78	FY80	FY85
Hard Window					
IBRD	1048	2474	6818	8050	13000
IDB	194	453	1106	1415	2322
AsDB	42	303	778	900	1275
AfDB	3	43	206	291	1030
Soft Window					
IDA	116	1592	2872	3618	5450
IDB/FSO	210	427	683	625	625
AsDF	-	118	381	490	821
AfDF	-	-	186	220	700
Total					
IBRD/IDA	1164	4066	9690	11668	18450
IDB	404	880	1789	2040	2947
AsDB/AsDF	42	421	1159	1390	2096
AfDB/AfDF	3	43	392	511	1730

1/ Fiscal years for IBRD/IDA, Calendar years for IDB, AsDB and AfDB. Commitment amounts are obtained from the most recent version of Standard Table IX.

AVERAGE ANNUAL GROWTH RATES OF LOAN COMMITMENTS
BY INTERNATIONAL FINANCIAL INSTITUTIONS

	Past Growth Rates 1/ (%)						Projected Growth Rates (%)	
	1969-73		1974-78		1979-80		1981-85	
	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal
Hard Window								
IBRD	-3.6	10.0	5.6	17.3	1.0	8.7	4.7	11.3
IDB	6.3	21.3	3.4	14.8	20.2	29.3	2.1	8.5
AsDB	23.8	41.3	8.0	20.0	1.4	9.1	.6	6.9
AfDB	33.5	52.3	11.0	23.3	17.0	26.0	22.0	29.7
Soft Window								
IDA	20.1	37.0	8.5	20.6	4.5	12.5	3.6	10.2
IDB/FSO	-11.6	.84	-1.4	9.5	-25.1	-19.4	-5.9	0
AsDF	33.4	52.2	9.7	21.8	9.7	18.1	2.8	9.3
AfDF	0	0	27.0	41.0	7.6	15.8	16.3	23.6

1/ Projections are on a fiscal year basis for IBRD/IDA, otherwise calendar years. Growth rates are obtained from the most recent versions of Standard Tables Id (IBRD/IDA); and IX.
2/ Deflated using IBRD/IDA commitment deflators (prepared 2/26/80; 1980=100.0).

Financial Analysis Division
September 8, 1980

ATTACHMENT 2

LOAN COMMITMENTS BY
INTERNATIONAL FINANCIAL INSTITUTIONS 1/
(Million US Dollars)

	FY68	FY73	FY78	FY80	FY85
Hard Window					
IBRD	1048	2474	6818	8050	13000
IDB	194	453	1106	1415	2322
AsDB	42	303	778	900	1275
AfDB	3	43	206	291	1030
Soft Window					
IDA	116	1592	2872	3618	5450
IDB/FSO	210	427	683	625	625
AsDF	-	118	381	490	821
AfDF	-	-	186	220	700
Total					
IBRD/IDA	1164	4066	9690	11668	18450
IDB	404	880	1789	2040	2947
AsDB/AsDF	42	421	1159	1390	2096
AfDB/AfDF	3	43	392	511	1730

1/ Fiscal years for IBRD/IDA, Calendar years for IDB, AsDB and AfDB. Commitment amounts are obtained from the most recent version of Standard Table IX.

AVERAGE ANNUAL GROWTH RATES OF LOAN COMMITMENTS
BY INTERNATIONAL FINANCIAL INSTITUTIONS

	Past Growth Rates 1/ (%)						Projected Growth Rates (%)	
	1969-73		1974-78		1979-80		1981-85	
	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal
Hard Window								
IBRD	3.1	17.3	7.1	18.4	1.0	8.7	4.8	11.4
IDB	10.7	26.6	6.1	17.5	20.2	29.3	1.5	7.9
AsDB	14.2	28.5	5.8	17.3	1.4	9.1	.7	7.1
AfDB	44.0	64.1	13.7	25.7	17.0	26.0	21.6	29.2
Soft Window								
IDA	18.5	33.2	1.5	13.3	4.5	12.5	3.4	9.9
IDB/FSO	-8.4	4.0	-3.3	7.3	-25.1	-19.4	-6.0	0
AsDF	35.2	54.4	11.3	23.7	9.7	18.1	3.0	9.5
AfDF	0	0	16.9	29.3	7.6	15.8	19.0	26.3

1/ Projections are on a fiscal year basis for IBRD/IDA, otherwise calendar years. Data are from the most recent versions of Standard Tables Id (IBRD/IDA); and IX. Growth rates for 1979-80 are point-to-point; others are based on three year centered averages.

2/ Deflated using IBRD/IDA commitment deflators (prepared 2/26/80; 1980=100.0).

Financial Analysis Division
September 8, 1980

15

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OL: Info.

OFFICE MEMORANDUM

File

TO: Members of the Finance Committee

DATE: September 10, 1980

FROM: JM J. Murli, Acting Chief, Financial Analysis, FPA

SUBJECT: Meeting of the Finance Committee

The following item has been added to the Finance Committee Agenda for today:

(item #4) Sixth IDA Replenishment: Status of Advance Contributions. Mr. Qureshi will report on the status of advance contributions to IDA6. A note on the subject is attached.

Attachment

JMurli:sl

SIXTH IDA REPLENISHMENT - ADVANCE CONTRIBUTIONS

The bridging arrangement which has been established to permit the Association to accept advance contributions for the IDA VI Replenishment becomes effective when

> "either a majority of Part I donors or a majority of all donors listed in Table 1 of the Sixth Replenishment Resolution shall have given the Association formal notification that they will make advance contributions (either under this Resolution or another Resolution accepting an advance contribution) in an aggregate amount of not less than the equivalent of US$1,200,000,000, such equivalent to be determined as under the Sixth Replenishment Resolution." 1/

There are 33 donors listed in Table 1 of the Sixth Replenishment Resolution (IDA/R79-145). These are listed in the attached table. To satisfy the trigger, we need to receive advance contributions of US$1.2 billion from either 12 Part I countries or 17 Part I and II countries. At present, notifications on advance contributions have been received from 4 countries (see attached table on the status of notifications), of which 3 are Part I countries.

It is important that we obtain the remaining notifications as quickly as possible, with a view to satisfying the trigger mechanism by the Annual Meetings. Current indications are that a further 6 Part I countries, namely, Australia, Denmark, Germany, Iceland, Ireland and the Netherlands, are at an advanced stage in providing their notifications. Together with the 3 countries already notified, these 9 Part I countries would be contributing a little over US$1,200 million, assuming an advance contribution equal to 29% of their total contributions.

Under these circumstances, attaining the US$1.2 billion minimum would not constitute a problem. However, we must concentrate our efforts on ensuring that an adequate number of donors will participate in the exercise. Since only one Part II donor has so far notified and given the uncertain status of a number of the Part II IDA donors 2/, we are more likely to satisfy the trigger mechanism by the Annual Meetings by aiming for a participation of a majority of Part I countries.

1/ Resolution No. IDA 80-8.

2/ Portugal, Romania and Venezuela are not yet members of IDA. Furthermore, Romania has still to determine its contribution to the IDA VI Replenishment. Saudi Arabia is unlikely to participate in the bridging arrangement.

At present, 12 Part I countries (compared to 2 Part II countries) have completed their legislation on IDA VI and notified the Association accordingly. As indicated above, 9 Part I countries have either agreed to participate in the bridging arrangement or are expected to do so shortly. Of these, one country has not yet submitted its notification to the IDA VI Resolution. Thus, there remain 4 Part I countries that have submitted their notifications on the IDA VI Resolution and are therefore likely to be potential participants in the bridging arrangement.

However, because of the uncertainties involved, we plan also to closely pursue with Part II countries their progress in submitting their notifications. Messrs. Gabriel, Rotberg, Knapp and I will continue to contact IDA donors in the coming week. I have appended a list of country responsibilities.

Moeen A. Qureshi

Attachments

September 10, 1980

ATTACHMENT 1

SIXTH IDA REPLENISHMENT

List of Donors

- advanced
= double

PART I COUNTRIES			PART II COUNTRIES		
Australia	+		Argentina		
Austria			Brazil	+	
Belgium			Greece		
Canada			Korea	+	*
Denmark	+		Mexico		
Finland	+		Portugal		
France			Romania		
Germany	+		Saudi Arabia		
Iceland			Spain		
Ireland	+		Venezuela		
Italy			Yugoslavia		
Japan	+	*			
Kuwait	+				
Luxembourg	+				
Netherlands					
New Zealand	+	*			
Norway	+	*			
South Africa					
Sweden	+				
United Arab Emirates					
United Kingdom	+				
United States					
TOTAL: 22	12	3	TOTAL: 11	2	1

+ Notification on the IDA VI Replenishment received

* Notification on advance contribution received

September 9, 1980

Status of Notification to the Sixth Replenishment and to the Advance Contribution Arrangements

	Notification to the Replenishment		Notification of Advance Contributions			
	Received	Expected Date of Receipt	Received	Whether willing to Waive Trigger	First Installment (33%) US$ million Equivalent	Remarks
PART I COUNTRIES						
Australia	Yes				75.64	Action is expected very soon.
Austria		November or December 1980			26.93	Because of the lengthy Parliamentary action required, the Alternate ED believes that Austria will not be able to participate in advance contribution arrangements.
Belgium		No estimate available			66.53	Notification to IDA6 not expected until next year. Approximate date of receipt unknown.
Canada		January 1981			170.28	Appropriation bill for first tranche [illegible]
Denmark	Yes				47.52	ED's office expects that advance contribution notification will be given before the Annual Meeting.
Finland	Yes				23.76	Legislation not expected to be completed before Annual Meeting.
France		No estimate available			213.05	No information available.
Germany	Yes				495.00	Will announce advance contribution not later than the Annual Meetings.
Iceland		No estimate available			1.19	ED's office expects that advance contribution notification will be given before the Annual Meeting.
Ireland	Yes				4.36	Advance contribution arrangements are currently under consideration in Finance Ministry
Italy		No estimate available			152.46	No information available.
Japan	Yes		Yes	No	579.99	
Kuwait	Yes				66.00	No information available.
Luxembourg	Yes				1.98	Information being sought.
Netherlands		December 1980			118.00	Advance contributions could possibly be received before Annual Meeting.
New Zealand	Yes		Yes		3.31	Position on trigger being ascertained.
Norway	Yes		Yes		47.52	Position on trigger being ascertained.
South Africa		Early 1981			3.30	Notification to IDA6 expected to be received in early 1981 but Finance Minister has power to make allocations on current year and, thus, also on advance contributions.
Sweden	Yes				118.80	Legislation not expected to be completed before Annual Meeting.
U.A.E.		No estimate available			26.14	No information available.
U.K.	Yes				399.96	Parliamentary approval is needed for advance British advance contribution; Parliament reconvenes in November.
U.S.		See note attached			1069.20	

Status of Notification to the Sixth Replenishment and to the Advance Contribution Arrangements

	Notification to the Replenishment		Notification of Advance Contributions			
	Received	Expected Date of Receipt	Received	Whether willing to Waive Trigger	First Installment (33%) (US$ million equivalent)	Remarks
PART II COUNTRIES						
Argentina		September 1980			8.25	Notification regarding advance contribution will be sent shortly after receipt of notification to IDA6 since no new legislative action is required.
Brazil	Yes				16.50	Advance contribution expected before Annual Meeting.
Colombia						Colombia (a new donor) has pledged to contribute $10 million towards closing the "unallocated" IDA6 gap.
Greece		No estimate available			1.98	No information available.
Korea	Yes		Yes	Yes	.99	
Mexico		December 1980			6.60	Parliament sessions begin September 1980.
Portugal		No estimate available			2.31	No information available.
Romania		None expected yet			*	Not a member of IDA
Saudi Arabia		No estimate available			138.60	No information available.
Spain		Fall 1980			16.50	Information being sought.
Venezuela		None expected yet			6.60	Not a member of IDA
Yugoslavia		No information available			6.60	

Note: Before credits can be made against advance contributions notified under the "trigger" provision the Association must receive from member donors advance contributions totaling US$1.2 billion equivalent from a majority of Part I donors (12) or a majority of all donors (17).

Financial Analysis Division
September 9, 1980

ATTACHMENT 3

IDA VI NOTIFICATIONS - COUNTRY RESPONSIBILITIES

Mr. Qureshi:

- Canada
- Kuwait
- Saudi Arabia
- United Arab Emirates
- United Kingdom

Mr. Gabriel:

- Denmark
- Finland
- Italy
- Sweden

Mr. Rotberg:

- Austria
- Belgium
- France
- Germany
- Netherlands

Mr. Knapp:

- Argentina
- Australia
- Brazil
- Colombia
- Greece
- Iceland
- Ireland
- Korea
- Luxembourg
- Mexico
- New Zealand
- Portugal
- Romania
- Spain
- South Africa
- Venezuela
- Yugoslavia

CONFIDENTIAL

FINANCE COMMITTEE MEETING

September 10,1980

MINUTES

Present: Members: Messrs. McNamara, Qureshi, Stern, Nurick, Thahane, Wood (Secretary)

Others: Messrs. Golsong, Chenery (item #1), Haq (item #1), Paijmans (item #3), Vergin (item #3), Knapp (item #5), Koch-Weser

I. Debt and Debt Servicing Problems of the Developing Countries

1. The paper, prepared by Mr. Haq's Department, was approved for distribution to the Board. The only changes in the text were deletions of two references to the Bank's preferred creditor status. There was a brief discussion of the problems which arise in connection with re-scheduling of commercial bank loans not guaranteed by creditor countries, but no change in the text was proposed. Mr. Stern reported that the members of the Paris Club are divided with respect to the role they would like to see the Bank and the IMF play in Paris Club negotiations. France and a number of other members are sympathetic to an expanded role, but the United State adamantly opposes it.

II. Schedule of Work Assignments

2. Mr. McNamara asked that the schedule which had been submitted to the Committee be recast into five sections and re-submitted. After some discussion it was agreed that two major Board papers needed to be prepared: one, relating to possible expansion in the lending program, was tentatively scheduled for Board distribution around November 1; the other, relating be possible means of financing such an expansion, would go to the Board around December 1.

3. Mr. Nurick questioned the date proposed (January 31, 1980) for submission of a White Paper on Valuation of Capital. There was discussion of how long it would take to prepare such a paper, what it should cover and when the United State would be ready to deal with it. The conclusion was to leave the scheduled date as proposed, but to produce the paper earlier if that proves possible.

III. FY81 Contingency Allocations

4. Mr. McNamara approved the requests put forward in Mr. Paijmans´ memorandum dated September 5, 1980. He asked that in the preparation of the FY82 budget explicit account be taken of the savings projected to flow from the operation of the HRS system. Mr. Vergin reported that total approvals out of the FY81 Contingency, includng Mr. Paijmans´ requests, amounted to approximately $1.5 million, leaving about $1.5 million to meet future requests. Pending requests amount to roughly $2.5 million, including $700,000 for the proposed African study. Mr. Vergin urged that at least $500,000 of the Contingency be kept unallocated through January to preserve a measure of flexibility and Mr. McNamara agreed.

IV. Field Office Study

5. Mr. McNamara raised the subject of the Field Office study and asked that it be included in the revised schedule of Work Assignments. It was to be prepared jointly by PAB and OPD, in close collaboration with Mr. Stern. As agreed in the PMC, there would be a separate study of regional decentralization of decision-making. Mr. McNamara asked Mr. Qureshi to consider the timing and indicated that sometime in February or March might be appropriate.

V. Status of IDA

6. Mr. Qureshi reported on the advance contributions already received and on those expected by the time of the Annual Meeting. His strategy would be to seek participation of 12 Part I countries. The countries most in doubt in this connection were Finland, Luxembourg, and Sweden. Meanwhile, efforts would continue to bring in as many Part II countries as possible.

7. Mr. Knapp reported on the status of Part II contributors. With regard to Mexico, Mr. McNamara suggested that a cable be sent to Governor Ibarra, requesting his help in obtaining Mexico´s participation. Mr. Knapp agreed. Mr. Knapp also drew attention to the fact that Germany had been the country most insistent on having the "trigger" include the number of participants as well as the amount made available. He thought that if Germany could be persuaded to waive the "trigger", others - especially Japan - would follow suit.

Mr. McNamara promised to take this possibility up with Mr. Matthoefer when they meet during the Annual Meeting. Mr. Golsong noted that Germany's position on this issue was part of a broader German/French understanding about their relations with the United States, and that Mr. Matthoefer might therefore find it difficult to act without consulting the French.

September 24, 1980

CONFIDENTIAL

FINANCE COMMITTEE MEETING

September 23,1980

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Nurick, Thahane, Golsong, Wood, Applegarth, Koch-Weser, Lafourcade

I. Energy

1. The Committee reviewed a timetable for the Energy Affiliate, and a list of key issues to be used as a guide for discussions at the Annual Meetings. The Committee noted that the timetable called for approval of the affiliate by the Board of Governors by the 1981 Annual Meetings. Mr. McNamara requested that discussions proceed on the basis of capital subscriptions of $6 to $10 billion. The issues of IBRD transfers and decision-taking should not be discussed; it was more important to focus donors on possible capital structures for the affiliate and obtaining their consensus to participate. Mr. McNamara also asked that the affiliate's financial projections be revised to reduce liquidity to 40% after the first three years of operations. Finally, dividends by the affiliate might be considered in the future but should not become a basis for planning in the short-term.

II. Health Research

2. The Committee reviewed a proposal by Mr. Stern, concurred in by Mr. Qureshi, that the Bank participate in the financing of International Health Research programs. Mr. Stern felt that the Bank's present position of participating in the management of the program but refusing to participate in the financing was untenable, and that the Bank faced a choice of providing financing or withdrawing. Although the Bank did not yet have general criteria for financing research, financing of this effort could proceed on the grounds that the Bank was engaged in the management of the entire

international program. Health was the only such program at present, and no further requests were contemplated.

3. Mr. McNamara was not prepared to proceed with the request. He asked Mr. Koch-Weser to confirm that there was nothing in the records to indicate that the Bank had made any commitment - expressed or implied - to provide financial support; his own recollection was that the Bank had emphasized quite strongly that it was not committing itself to provide financial support by participating in the management. Mr. McNamara felt that managing research was very difficult and questioned whether the Bank was committing sufficient resources to the health research program to ensure that it would be managed effectively. Moreover, this was the wrong time to take to the Board a proposal to use Bank income for purposes like health. The Bank needed to expand its own lending program and the Energy Affiliate might also be making a claim for Bank's profits. Mr. Stern responded that the amount involved was de minimis and that Bank profits would not be affected since the proposal was to make the transfer out of the IDA Transfer. Mr. Qureshi said that he believed that financing the health program had merit, but agreed that sending a proposal to the Board was not appropriate at this time. After further discussion, Mr. Applegarth was asked to draft a statement indicating that the Bank would not undertake financing at this time [draft statement attached]. Mr. McNamara and Mr. Stern agreed to discuss at a later time the costs and benefits of the Bank's continuing to participate in the management of the program.

III. IMF

4. Mr. Qureshi reported on the changes in the currency composition of the SDR. From January 1, 1981 the SDR will consist of 5 currencies in the following weights: US$ 42%, Deutsche Mark 19%, Yen, French Franc and Pound Sterling 13% each. The currency composition and the percentages will be reviewed every five years. This change made the composition of the SDR the same as that of the basket used for interest rate determination. The change would facilitate future IMF borrowing operations. It had not yet been determined at what rate the IMF would lend these additional resources, or even how the rate would be set.

5. Mr. Qureshi also reported on the IMF's borrowing plans. The IMF planned to borrow only SDR - denominated instruments. Its initial borrowing would be short-term notes of 1-3 years maturity. Borrowing would be from central banks initially, to be followed next year by private market borrowings, probably in Europe. Estimated volume was $2-3 billion a year. The IMF considered the climate for borrowing supportive following Mr. de Larosiere's trip to the Middle East, despite the PLO controversy. Mr. Nurick commented that the Fund had

many issues to resolve before being able to proceed with borrowing. These included the claims lenders might have on its capital, and the effect of the IMF's immunities. Mr. McNamara asked to have a quarterly report prepared on the volume of IMF operations by facility and - for the recent period - by country.

IV. Finance Complex Work Program

6. Mr. Nurick expressed concern about the timing of the Maintenance of Value papers. Mr. Wood responded that Mr. Nurick's concern was shared in the Finance complex. Therefore the work assignments on this item had been changed since the schedule was distributed to permit preparation of an approach paper by November 15.

DRAFT
PVApplegarth/Qureshi:sl
September 23, 1980

DRAFT STATEMENT ON RESEARCH PROPOSAL

For many years, the Bank has had a policy of not financing external research. It has deviated from this policy in only two respects:

- to participate in the financing of the CGIAR
- to participate in the financing of the onchocerciasis program.

These are the only two exceptions the Bank has made and, in light of some potentially large and still uncertain claims on Bank income posed by China, energy, inflation and the need for structural adjustment, it does not appear appropriate at this time to propose that a third exception be made.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee DATE: October 16, 1980

FROM: Joe Wood, Director, FPA

SUBJECT: Finance Committee

Mr. McNamara has asked that the attached paper on debt be distributed to the Committee. We are also distributing two memos which relate to the subject, and which may help crystalize the issues. Your attention is particularly called to paragraph 5 of Mr. Clarke's memo.

The papers will be discussed at the next meeting of the Finance Committee (date to be determined).

Attachments

PVApplegarth:mm

OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk DATE: October 10, 1980

FROM: D.R. Clarke DRC

SUBJECT: Conversation with Gerry Arsenis, Director, Finance Dept., UNCTAD

1. Arsenis came to see me during the Annual Meetings and brought to attention the very recent success in UNCTAD in a Resolution which was approved on the debt problems of the developing countries.

2. He particularly wanted to put out an alert at the possibility of a visit to the Bank by Gamani Corea around October 29 (the time of his UNGA attendance) for discussions with both the Fund and the Bank on the implementation of the UNCTAD Resolution.

3. The operative paragraph of the Resolution invites Executive Heads of the IMF and IBRD, in consultation with the Secretary General of UNCTAD, to "consider as soon as possible effective procedures for responding in a coordinated manner to requests for analysis from developing countries." (Moodi Burney has already reported on this.)

4. Arsenis was not altogether clear as to what was being expected of the Bank except that, from a developing country point of view, the Bank's participation in debt reorganization gave assurance that developmental aspects would not be overlooked in negotiations with country creditors.

5. From what I was able to gather, UNCTAD would like to see:

(a) the World Bank do preparatory work for countries for presentation to the Paris Club;

(b) perhaps more systematic instructions to World Bank representatives attending the Paris Club and possibly representation at these meetings at the policy level. At present, the quality of Bank participation seemed to depend largely on the individual Bank officer;

(c) more work by the Bank in assisting countries on debt management well ahead of the debt crises, including assistance in the preparation of papers which a country might use in going to the financial markets.

6. The political fact is that the LDCs desperately want World Bank participation in this field more so than the IMF. There are a number of obvious difficulties , e.g. the Bank's creditor relationships as well as Part I country attitudes. It does seem, however, that we can hardly continue to highlight the staggering external financing problems of the developing countries without focusing in greater depth on our debt policy responses. Having said that, Arsenis seemed quite happy with the recent Board paper on "Debt" which, in his view, showed considerable movement in the Bank's position.

7. I gather Moodi Burney has had discussions with the EPD people on the UNCTAD Debt Resolution and that Bevan Waide has been alerted to these developments. I do think that in our long run Third World interests we should give this a further push in the Bank.

cc: Mrs. Boskey
Mr. Waide
Mr. Burney

DRClarke:ls

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice President DATE: October 8, 1980

FROM: E. Bevan Waide, VPD VBW.

SUBJECT: UNCTAD Resolution on Debt

In answer to your memorandum to Hollis of October 2, 1980, no one in the Bank has yet been approached formally by UNCTAD concerning their resolution [TD/B/L.580 of 28 September, 1980 (copy attached)], although an UNCTAD staff member (Mr. Haji) made some enquiries about debt data last week. Part B, para 3 of the resolution "invites the IMF and IBRD to consider procedures for responding to requests for analysis from developing countries".

According to Mahmud Burney, the resolution constitutes a compromise between developing country demands for a Debt Commission, and developed countries' insistence on using existing institutions. The spirit of the discussion leading to the resolution was that the Bank, IMF and UNCTAD should be invited to form a joint, coordinated "focal point" for advice on debt issues, including both debt management and debt relief. The Bretton Woods institutions would be the senior partners in this troika. Individual developing countries could call on this focal point at their option. The Bank and Fund would assume a higher profile in their debt analyses.

It is not yet clear what is involved for the Bank, beyond doing more of what we are already doing, viz.: country economic reporting (with appropriate emphasis on debt problems and on socio-economic objectives); and technical assistance to debt reporting agencies. If an expanded Bank role in debt relief is intended, we note that the US Treasury has invited the Bank not to inject development considerations into Paris Club debates, but to provide purely technical inputs. Furthermore, countries which are now large borrowers also prefer to downplay debt relief matters.

We should first ascertain the UNCTAD secretariat's views about the follow-up steps needed, and can best do this when they officially inform us about the resolution, which Burney expects to be soon. We can then decide on the best division of internal responsibilities in the light of their approach. EPD is in a position to provide assistance on debt data, and on techniques of analysis of debt payments in the context of overall capital flows.

Attachment/-

cc. Mr. Chenery; Mr. Benjenk; Mrs. Hughes/Mr. Baneth/Mr. Hope (EPD);
Mr. J. Wood (FPA); Mrs. Boskey/Mr. Burney (IRD).

JBaneth/EBWaide/ko

10/18 To Mr. [illegible] Please place this subject on a Finance Com. agenda. [illegible]

Mrs. Shirley Boskey

3 October 1980
page 2

topic of debate and comment in the press, in meetings and in private circles. This certainly is already true in Geneva, and especially among the representatives of developing countries.

UNCTAD - Trade and Development Board (TDB)
Twenty-first Session, 15-26 September

I might add to the few comments in my last letter (No. 18, pages 2 and 3) about this meeting. Contrary to what I said - when the Board was still in session - there has been a consensus agreement on the debt of developing countries, reached at midnight on Saturday, 27 September. You will recall that the March 1978 TDB agreed to a two-part resolution on debt (165 S-IX): Part A on retroactive adjustment of terms of ODA to the poorer developing countries and Part B on the need for establishing a multilateral framework for future debt operations. Whereas a number of DAC countries have, at least partly, implemented Part A of the resolution, they have in the past resisted the need to create new institutional arrangements for debt negotiations, or even to substantially modify existing arrangements. The developed countries have in previous meetings conceded that marginal improvements might be warranted. The developing countries have argued that these were not enough because the existing set-up (especially the Paris Club) did not satisfy the basic principles which in future should govern debt restructuring operations, i.e. "permanence" and "impartiality".

(to H. Hughes)

A consensus resolution was adopted at this meeting and the resolution (TD/B/L.580 (copy enclosed) - according to the spokesman of the G.77 - is "an important step forward ..... " in placing "debt relief operations in a coherent and mutually beneficial framework of creditor and debtor relationship, using the existing institutional framework". As you will see, paragraph 3 of Part B invites the Executive Heads of the IMF and the World Bank to "consider as soon as possible effective procedures for responding in a co-ordinated manner to requests for analysis from developing countries". The Executive Heads are expected to do this in consultation with the Secretary-General of UNCTAD who is requested to report the results of such consultation to the March 1981 TDB meeting. UNCTAD and its supporters are unhappy that their Board is looking to the Bank and the Fund for the initiative in proposing "effective procedures". This was done at the insistence of Group B, and particularly the USA, FRG and the UK, who continue their battle to reduce UNCTAD's role in the money and finance area. Not being up-to-date on the Bank's position on this matter, and in view of the fact that we are a creditor, I tried to discourage several

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OCT 6 1980

The World Bank / REPRESENTATIVE TO UNITED NATIONS ORGANIZATIONS—GENEVA
WIPO Building, P.O. Box 18, 34 Chemin des Colombettes, 1211 Geneva 20, Switzerland • Telephone: 99.92.43/44

Mrs. Shirley Boskey
Director
International Relations Department
The World Bank
1818 H. Street, N.W.
Washington, D.C. 20433

Geneva letter 19

3 October 1980

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WBG ARCHIVES

Dear Shirley,

Regardless of parochial bias and political alignment, the war in the Gulf area has caught everyone off balance, including those dealing with economic negotiations and development issues. OPEC representatives are embarrassed and frightened, but the OILDCs, and especially those from the poorest countries, are stunned - crisis to crash.

The OILDCs, as we know, were pinning their hopes on OPEC. In addition to the agreement on the modalities and mechanism for oil supply/price, the poorer LDCs had hoped that the Baghdad summit next month would be the occasion for OPEC to unveil concrete plans to rescue them. Needless to say that the war will change, if not completely alter, the priorities and objectives of the OPEC summit - if and when it takes place. Much of OPEC effort will focus on solving problems among the OPEC members and helping Iraq and Iran put their oil production on stream and repair other damages. The intentions and plans of OPEC to increase its Special Fund, to play an expanded role in recycling and to help subsidise the LDC oil bill, are likely to be replaced by political considerations concerning the survival of OPEC. The planned meeting in London (14 October) of OPEC Ministers of Foreign Affairs, Oil and Finance may give us an indication of things to come.

The more substantive news (other than the PLO) about the Bank/IMF Annual Meeting is appearing daily in the press. I was happy to see in today's "Journal de Genève" that Abal-Khal, Saudi Arabian Minister of Finance (speaking for the Arab countries at the Annual Meeting) lent support to the proposed Bank energy affiliate. Mr. McNamara's speech has been much in demand. We received today 25 copies each in English and French from the Paris office - and they are all gone. His speech and the fact that he will be retiring next year will understandably continue to be an important

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topic of debate and comment in the press, in meetings and in private circles. This certainly is already true in Geneva, and especially among the representatives of developing countries.

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Twenty-first Session, 15-26 September

I might add to the few comments in my last letter (No. 18, pages 2 and 3) about this meeting. Contrary to what I said - when the Board was still in session - there has been a consensus agreement on the debt of developing countries, reached at midnight on Saturday, 27 September. You will recall that the March 1978 TDB agreed to a two-part resolution on debt (165 S-IX): Part A on retroactive adjustment of terms of ODA to the poorer developing countries and Part B on the need for establishing a multilateral framework for future debt operations. Whereas a number of DAC countries have, at least partly, implemented Part A of the resolution, they have in the past resisted the need to create new institutional arrangements for debt negotiations, or even to substantially modify existing arrangements. The developed countries have in previous meetings conceded that marginal improvements might be warranted. The developing countries have argued that these were not enough because the existing set-up (especially the Paris Club) did not satisfy the basic principles which in future should govern debt restructuring operations, i.e. "permanence" and "impartiality".

A consensus resolution was adopted at this meeting and the resolution (TD/B/L.580 (copy enclosed) (to H. Hughes) - according to the spokesman of the G.77 - is "an important step forward ..... " in placing "debt relief operations in a coherent and mutually beneficial framework of creditor and debtor relationship, using the existing institutional framework". As you will see, paragraph 3 of Part B invites the Executive Heads of the IMF and the World Bank to "consider as soon as possible effective procedures for responding in a co-ordinated manner to requests for analysis from developing countries". The Executive Heads are expected to do this in consultation with the Secretary-General of UNCTAD who is requested to report the results of such consultation to the March 1981 TDB meeting. UNCTAD and its supporters are unhappy that their Board is looking to the Bank and the Fund for the initiative in proposing "effective procedures". This was done at the insistence of Group B, and particularly the USA, FRG and the UK, who continue their battle to reduce UNCTAD's role in the money and finance area. Not being up-to-date on the Bank's position on this matter, and in view of the fact that we are a creditor, I tried to discourage several

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members of Group B from putting the Bank in a lead position. However, the order of listing does not really make much difference. The Secretary-General of UNCTAD will in any case take the initiative to consult with the IMF and the Bank, as he is required to report on the result of such consultation to next year's TDB meeting (March 1981). The TDB, at its spring session in 1982, will review the progress made as a result of the agreement reached in the TDB session just ended. As mentioned in my last letter, the G.77 has officially abandoned the idea of an International Debt Commission; the decision, the G.77 spokesman, Roy Matter (Jamaica), said was taken by the Group in a spirit of compromise "to allow us to see if our faith in the effort to reform the existing machinery will have been justified". The consensus agreement does not mean a shift in the position of Group B which continues to consider "debt as a financial issue", and which must remain within the competence of the Bretton Woods institutions. UNCTAD will soon take steps to initiate consultations with the Bank and the Fund; Gerry Arsenis, in Washington for the Annual Meeting, may have broached this subject already with Bank staff. It might be added that the resolution (TD/B/L.580) also urges developed donor countries to honour commitments to "retroactive term adjustment" of their ODA to poorer countries - Part A of resolution 165 (S-IX). The socialist countries insisted that debt resolutions have no application to them.

On other agenda items at the TDB, such as "evaluation of the world trade and economic situation and the interdependence of problems of trade, development and finance" and "the evolution of the international monetary system"; "rationalization of the permanent machinery of UNCTAD"; "transfer of technology"; "protectionism and structural adjustment"; and "trade between developing and socialist countries", the discussion did not lead to any noticeable advance and these matters were passed on to the March 1981 TDB and beyond.

On the issues relating to the evolution of the international monetary system, most of the members of Group B, in spite of the urging of the Secretary-General, G.77 and Group D, maintained their position that they would not participate in or support the work of the <u>Ad Hoc Intergovernmental High-Level Group of Experts on the Evolution of the International Monetary System</u> which met in Geneva (28 July - 5 August) and was boycotted by all developed countries (except Norway). You will recall that at UNCTAD V (Manila) a resolution (128(V)) was voted by the LDCs (with Group B opposing it) to establish this intergovernmental group to study and discuss (but not negotiate) the need for and the nature of reforms in the monetary system. A second meeting of this group is scheduled in

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Geneva (23-27 February 1981) and, once again, it will remain a dialogue between the developing and socialist countries. Areas to be explored at the 1981 meeting include: examination of arrangements for asset settlement, role of resource assets, the role of gold and ways and means of protecting the real value of financial assets of developing countries.

No decision was taken on Cuba's offer to host the 1983 UNCTAD VI conference. In addition to developed countries, a number of developing countries would like the venue to be other than Havana. This matter will come up again at the next Board meeting.

IPC - Ad Hoc Intergovernmental Committee
Tenth Session - 29 September-1 October

Committee on Commodities
Ninth Session - 29 September-3 October

As mentioned in my telex of 23 September, these two meetings were intentionally arranged to overlap, because the Common Fund (CF) having been agreed, the IPC Ad Hoc Intergovernmental Committee will cease to exist after this meeting. The Committee on Commodities, which has been in suspense pending the outcome of the CF negotiations (and has not met since 1975), will become operational, assuming the review functions of the Committee on IPC on the progress of individual commodity agreements and activating its programme of work (world commodity situation, influence of protectionism on trade in primary and processed commodities, outcome of MTNs on commodities, international food trade, need for complementary financing facility to compensate for shortfalls in earnings of each commodity, commodity policy of individual developing countries) as well as "downstream" activities, such as marketing, distribution and processing of commodities.

The main focus in this meeting of the Committee on Commodities is to discuss and agree on awork programme related to the above areas. UNCTAD has prepared reports on some of these subjects. A set of these is being sent to you under separate cover. Group B will be reluctant for the Committee to cover some of the areas suggested by UNCTAD - such as review of MTNs, complementary financing facility. The meeting will end some time next week (when I am in Washington) and I may send you another note upon my return. I believe a number of studies to be carried out by the Commodities Division for this Committee might be of interest to the Bank, and might even provide an area of joint research and analysis.

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You and Warren Baum might be interested to know that the representative of Turkey made a statement at this meeting on behalf of the "Izmir Group" (cotton producing/exporting developing countries), the substance of which was that the members of the Group feel that the agreement on Cotton Development International (CDI) should be preceded by a comprehensive international cotton agreement, and that CDI should function within the overall context of such an agreement and in close collaboration with the Second Account operation of the CF. It seems that a number of developing countries still suspect that the CDI is supply-oriented and, without price stablization measures as part of an overall cotton agreement, its effect would be to depress prices. An UNCTAD preparatory meeting for an international cotton agreement is scheduled in Geneva in March 1981. If the "Izmir Group" statement (copy enclosed) reflects the views of even some of the LDC cotton producers/exporters, next week's working group meeting in Rome on the proposed CDI might be inconclusive and even uncomfortable.

(Sent to Baum/Wei

Miscellaneous

- Some of the GATT staff who have been reading about the Bank's lending for structural adjustment suggest the need for a more systematic exchange of information and views between the Bank and GATT on country specific trade policies, taxation, etc. I am sure some of the Bank country economists are in touch with their counterparts in GATT, but I wonder whether there is a need for a more systematic flow of information and consultation between the two institutions. By the way, Dunkel, the new Director-General of GATT, has taken over as of 1 October.

- I hope that Peter Chatenay and/or Sidney Chernick will be here next week for the LLDC seminar and preparatory meeting (reference my telex 23 September).

- The first session of the Preparatory Commission for the Common Fund will be held from 20-24 October. Since Amerasinghe will not be coming to Geneva until 27 October, I plan to cover this meeting, at least part of the time.

Best regards,

Sincerely yours,

Mood.

Mahmud A. Burney

cc: Mr. Rainer B. Steckhan, Paris
Mr. Julian P. Grenfell, Paris ?

ENCLS:

Distr.
LIMITED

TD/B/L.580
26 September 1980

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Twenty-first session
Geneva, 15 September 1980
Agenda item 5

IMPLEMENTATION OF TRADE AND DEVELOPMENT BOARD RESOLUTION 165 (S-IX) ON THE DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

Proposal submitted by the President

Debt and development Problems of Developing Countries

Part A

The Trade and Development Board:

1. Welcomes the announcement by the States members of DAC regarding measures taken in pursuance of Part A of resolution 165 (S-IX) and their affirmation to implement fully Part A of that resolution.

2. Takes note of the nature, scope and coverage of measures announced so far by different developed donor countries in relation to the provisions and decisions of resolution 165 (S-IX) and the resultant variation in their implementation.

3. Notes that the Finance Ministers of the Group of 77 at their meeting in Belgrade on 9 September 1979, reiterated the position expressed in the Arusha Ministerial Declaration that developed countries which grant relief measures to only a limited group of poorer developing countries should not be considered as having implemented fully resolution 165 (S-IX).

4. Notes also the appreciation expressed by the Group of 77 of the action taken by some developed donor countries which have interpreted and applied the retroactive adjustment of terms in a manner which met fully the expectations of developing countries in respect of implementation of Part A of resolution 165 (S-IX).

5. Takes note of the statement by States members of DAC that they are fully implementing Part A of resolution 165 (S-IX), taking into account paragraph 5 of that resolution.

6. Urges all developed donor countries which have not done so to take the necessary steps to fully and immediately implement Part A of resolution 165 (S-IX) regarding justment of terms on past ODA debt.

7. Agrees that developed donor countries should seek to continue to adopt retroactive adjustment of terms or equivalent measures in accordance with Part A of resolution 165 (S-IX) so that the improvement in current terms can be applied to outstanding official development assistance debt.

GE.80-56271

8. Invites the Secretary-General of UNCTAD to keep this matter under close and continuous review and assessment and to report to the Trade and Development Board at its twenty-second session on the coverage and the degree of retroactive adjustment of terms and equivalent measures taken by developed countries in pursuance of Part A of resolution 165 (S-IX).

9. Further invites all developed countries to make available to UNCTAD data necessary for this review.

Part B

The Trade and Development Board:

1. Endorses the agreed detailed features contained in the annex to this resolution which elaborate the basic concepts contained in resolution 165 (S-IX), Part B, and agrees that States members of the United Nations Conference on Trade and Development be guided by these agreed features in future operations relating to debt problems of interested developing countries.

2. Agrees further that whenever a developing country believes it faces difficulties involving debt it may initiate consideration of a debt operation in the context of appropriate multilateral fora agreed upon by debtor and creditors. This operation will be guided by and consistent with the agreed features.

3. Decides that such a country should be able to avail itself of the expertise of appropriate international institutions which could provide in consultation with it an objective and comprehensive analysis of its economic situation taking into account its social and economic objectives and development prospects. To this end, the Board invites the Executive Heads of the IMF and IBRD in consultation with the Secretary-General of UNCTAD to consider as soon as possible effective procedures for responding in a co-ordinated manner to requests for analysis from developing countries and requests the Secretary-General of UNCTAD to report on the consultations to the Trade and Development Board at its twenty-second session.

4. Agrees also that only at the request of the debtor country concerned, appropriate international institutions would provide the multilateral forum with the above-mentioned and other relevant analyses in order to aid the forum in arriving at satisfactory and equitable results.

5. Welcomes in the context of Board resolution 132 (XV) the invitation by the Chairman of the Paris Club to the Secretary-General of UNCTAD to participate in the meetings of this creditor group on the same basis and terms as the representatives of other international organizations participating and agrees in this context that the Secretary-General of UNCTAD would have a particular interest in the agreed features.

(part of the) spring '82

6. Agrees that the Trade and Development Board at its twenty-sixth session will review the arrangements agreed to in this resolution, and towards this end requests the Secretary-General of UNCTAD, and invites the heads of concerned multilateral institutions and fora to provide all relevant information and documentation.

ANNEX

Detailed features for future operations relating to the debt problems of interested developing countries

I. PREAMBLE

1. In pursuance of resolution 165 (S-IX) of the Trade and Development Board, taking into account the work of the Intergovernmental Group of Experts on Debt and Development Problems of Developing Countries, the following features for future operations relating to the debt problems of interested developing countries are agreed upon:

2. It was further agreed that finding a means through which debt-servicing difficulties can be avoided was one of the most important tasks facing the international community. The avoidance of debt-servicing difficulties under conditions that are consistent with an orderly development process in developing countries is in the interest of both the creditor and debtor countries.

3. Nevertheless, it was recognized that problems can arise and it was important to have agreed arrangements for timely action.

II. OBJECTIVES

4. International action which may vary according to the nature of the problem of the debtor country:

- should be expeditious and timely

- should enhance the development prospects of the debtor country bearing in mind its socio-economic priorities and the internationally agreed objectives for the development of developing countries

- should aim at restoring the debtor country's capacity to service its debt over both the short and long run; and reinforce the developing country's own efforts to strengthen its underlying balance-of-payments situation

- should protect the interests of debtors and creditors equitably in the context of international economic co-operation.

III. OPERATIONAL FRAMEWORK

Initiation

5. International consideration of the debt problem of a developing country would be initiated only at the specific request of the debtor country concerned. Accordingly, the country concerned may request such consideration at an early stage when, in its judgement, the problem involving indebtedness exists or is likely to emerge.

Analysis

6. The nature of the problem may vary from acute balance-of-payments difficulties requiring immediate action to longer-term situations relating to structural, financial and transfer-of-resources problems requiring appropriate longer-term measures.

7. In all cases the following elements would be considered in determining appropriate international action:

(a) Examination of the domestic economic situation of the country including an analysis of the country's use of both domestic and external resources for safeguarding its development process.

(b) Impact of external factors on the developmental and financial problems of the debtor country.

(c) Estimates of short- and long-term developmental capital requirements and projected availabilities.

(d) Projection of debt-servicing requirements and review of measures adopted by the country concerned to avoid debt-servicing difficulties.

(e) The structure and prospects of all items of the balance-of-payments, exchange rate and monetary policies would be given particular consideration.

8. In the case of the acute balance-of-payments difficulties, the analysis would give special attention to the debtor country's short-term economic and financial policies, prospects and requirements. In the case of longer-run problems, the analysis would give special attention to the financing of long-term investment and associated resource transfers.

Action

9. In the light of the analysis described above, a comprehensive programme of action will be agreed upon aimed at meeting the objectives described in Section II. The action programme which will include both domestic and international measures will vary from case to case depending on the nature of the problem at hand and the development prospects of the debtor country.

10. International measures to be implemented by bilateral and multilateral sources would vary from debt reorganization to the provision of additional financial resources on appropriate terms and conditions.

11. In the case of acute balance-of-payments difficulties in which debt servicing payments play a major role and which require immediate action, the debtor country would undertake an economic programme designed to strengthen its underlying balance-of-payments situation having regard to its development prospects. This programme would be supported by interested parties. This support would, where necessary, include the reorganization of debts owed to or guaranteed by creditor governments.

12. In the case of longer-run problems which require appropriate longer-term measures, the debtor country concerned will undertake viable domestic policies, supported by donor countries and appropriate international institutions which would endeavour to increase the quantity of aid in appropriate forms and improve its quality.

13. In cases where both types of problems are present, actions involving both types of measures may be required and would have to be taken in a manner which ensures that they are consistent and mutually reinforcing.

In the multilateral forum, agreed upon by the debtor and creditors, the Chairman would

14. ~~The Chairman of the multilateral forum, agreed upon by the debtor and creditor countries, would conduct the debt operation in a fair and impartial~~ manner in accordance with the agreed objectives so as to lead to equitable results in the context of international economic co-operation.

conduct the debt operation in a fair and impartial

CONFIDENTIAL

FINANCE COMMITTEE MEETING

October 9, 1980

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Gabriel, Golsong, Rotberg, Wood, Applegarth, Lafourcade

I. Energy Affiliate

1. The Committee discussed Mr. Stern's memo of October 6. Three separate topics were discussed:

(A) Finance Committee Paper

2. The Committee decided that the paper's scope should be expanded to include the organizational structure and operating plan of the affiliate, as well as its financial feasibility. It should be prepared as a draft memo to the Board rather than as an issues paper for the Committee. Because of the expanded scope, its due date was deferred one week until November 14th.

(B) Consultation with Arab Countries

3. Discussion focussed on two areas:

(i) Organization and Control

There was general agreement that votes in the affiliate should be directly proportional to shares of subscriptions. OECD countries were expecting that OPEC and LDC votes would be a significant portion of the total. However, Mr. McNamara felt that capital markets would react adversely if OPEC controlled the affiliate or if its votes were equal to OECD. Mr. McNamara stressed that the affiliate should be an IDA-type affiliate, rather than an IFC-type, and that the Arab countries should be assured that they would have no less influence in such a structure. The IDA-type affiliate was important to the Bank Group because of the need to closely integrate staff with the IBRD/IDA. Integration was necessary since this was an "energy" affiliate, not an oil and gas affiliate., It was pointed out that an IDA-type affiliate might not be satisfactory to the Arab countries; they might prefer an IFC structure which would create the opportunity for appointments to higher level operating positions.

(ii) Initiating Discussions

Mr. Qureshi suggested that a small technical group of 6-8 member countries should be organized at an early date to begin discussing the affiliate. The group might include Saudi Arabia, Kuwait, the UAE, Venezuela, and 3-4 European or non-OPEC countries. Mr. McNamara said that the chances of getting an early decision on OPEC Fund participation were small because of the Iran/Iraq war, but supported an early meeting. Mr. Golsong suggested that it would be better not to convene a group immediately, and instead limit initial contact to Saudi Arabia, the UAE and Kuwait. Rather than going with a well-defined proposal now, it would be preferable to get them involved early in the process of formulating a proposal. Mr. Stern agreed that it would be better not to convene a group at this time. Mr. McNamara said the Bank should indicate it wanted to convene a group in four weeks and hold bilateral discussions first. He felt that working through an intermediary would not be useful; contacts should be made directly by the Bank. He pointed out the importance to the Arab countries of being able to express their views in front of others and having them taken into account. After further discussion, it was agreed that contact would first be made with Mr. Abul-Khail (Mr. McNamara and Mr. Qureshi will discuss the best approach for doing this.) Mr. Abul-Khail would be asked whether he would be prepared to designate a representative to participate in a group discussing the affiliate, and if so, would he help form the group.

(C) Other Issues

4. Mr. Stern indicated that possible energy lending to IDA-only countries totalled $3.9 billion in IDA6-IDA7. Providing financing to these countries was one of the critical issues facing the affiliate, for an affiliate which did not address the problem of the poor countries would not be attractive to several potential donors. Mr. McNamara indicated that he had thought lending to IDA-only countries would be much smaller than the amount indicated by Mr. Stern. Lending in the amounts indicated by Mr. Stern would make an interest subsidy scheme which he had been considering infeasible. He asked Mr. Stern to prepare a note detailing energy lending to IDA-only countries. In the interim, energy affiliate projections should be prepared on the basis that IDA would provide energy financing to IDA-only countries. Lending by the affiliate would total $21 billion ($25-$4 billion).

The Committee then discussed the difficulties presented by possible delays in the affiliate's start-up. It indicated that, as an interim scheme, the FY82 Administrative Budget Memorandum should propose drawing forward lending from later years to FY82-FY86 to provide for energy lending.

II. Borrowing Program

5. The Committee discussed Mr. Rotberg's memo of October 3, 1980. Mr. McNamara indicated that Mr. Rotberg had previously told him that sufficient funds were available on a long-term fixed rate basis to finance the FY81 borrowing program. Sufficient funds were also available at intermediate and long-term maturities to finance the proposed higher FY82-FY86 borrowing program, although not all of these amounts might be available on a fixed rate basis. Mr. Rotberg confirmed these conclusions. Mr. McNamara indicated that the crucial issue was availability of funds at the appropriate maturity, and that it was an acceptable cost that a portion of the borrowing program might have to be financed on a floating rate basis.

6. The paper that Mr. Rotberg was preparing on the feasibility of the borrowing program was also discussed. Mr. McNamara indicated that the paper should address the issue of how the Bank should borrow the funds needed to finance its program. He agreed to defer the paper by a week to November 7th. Mr. Qureshi raised the possibility of issuing short-term notes. Mr. McNamara requested that this issue be deferred for now; the critical issue for the moment was the availability of long-term funds. Mr. Rotberg and Mr. Stern pointed out that if the Bank began lending at floating rates, countries with alternative means of financing might cease to borrow from the Bank. This would create a form of automatic graduation. Mr. McNamara said that he would not be concerned about this prospect. He indicated that it was important to be able to tell the developing countries that if they wanted a lending program which we could endorse, we would be able to finance it.

III. Task Force on Private Foreign Direct Investment

7. Mr. McNamara said that declining to participate in the study did not seem to be a feasible alternative. The issue to be addressed by the study was what developing countries could do today to attract more private investment. He felt that the essential problem could be addressed for not more than $300,000, and that the paper should be completed for the Development Committee meeting in October 1981. Mr. Qureshi indicated that the United States wanted the paper to be an international survey of existing incentives for investment and performance criteria. The U.S. expected the paper to identify performance criteria for the purpose of developing a Code of Conduct

for countries desiring private sector investment. It was agreed that Mr. Qureshi would talk to Mr. Bergsten before any further steps were taken regarding the study. The discussion with Mr. Bergsten should proceed in such a way as not to prejudice the Bank's desired position of keeping the survey limited to a cost of $300,000.

IV. Criteria for Selective Capital Increases

8. Mr. McNamara made several suggestions regarding the paper. Mr. Stern indicated that it would be helpful if more time was allowed between the distribution of papers and Committee meetings, so that the Committee could reflect more on the papers. Mr. Golsong expressed concern that the paper in its present form might prejudice future discussion regarding Selective Increases. It was agreed that the paper would be revised to incorporate Mr. McNamara's comments and recirculated to the Committee members. Mr. Applegarth was asked to meet separately with Mr. Golsong (and Mr. Thahane) to obtain their detailed comments. The Committee would have two days to review a new draft and if it were necessary, an additional meeting of the Committee could be held. Mr. Qureshi said that he would plan to discuss the paper with key Directors before it was distributed to the Board.

PVApplegarth:sl

Cleared with Mr. Qureshi

10/28/80

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee　　　　DATE: October 20, 1980

FROM: Joe Wood

SUBJECT: Agenda for Next Meeting

1. The next meeting of the Finance Committee is scheduled for October 21 at 2pm in Mr. McNamara's office. Three papers related to a possible expansion in Bank Group lending have been circulated to the Committee. In drafting the Board paper itself it would be helpful to have the guidance of the Committee on the following points:

Lending to China

(a) It is not entirely clear which constraints are most critical in the determination of the proposed lending program: the ability of China to put forward loan/credit requests that meet our standards or our willingness to increase lending in response to such requests. What line should the Board paper take?

(b) The paper contemplates "start-up" operations at a level of $150 million to $200 million per project. How should the Board paper justify this approach as opposed to a more cautious beginning?

Structural Adjustment Lending

(a) One of the tables attached to this paper shows that potential SAL amounts to only 3% of total planned operations in pure IDA countries. This raises the question of whether SAL, as currently conceived, is meaningful for the poorest countries. Because of inadequate economic management in these countries, very few are likely to meet our current standards for supportable programs. We may nevertheless respond in less visible ways (e.g., through sector loans), but it is hard to see how this type of response could be made additional.
What should the Board paper say on the outlook for SAL in the poorest countries?

(b) The one page note attached to the paper argues that a higher level of SAL could readily be justified if the present "constraints" were relaxed. One constraint is the type of program we expect, which, as noted, limits sharply our formal SAL in the poorest countries. Another constraint is the notion that the amount of lending per country should be adequate to support a serious dialogue but not more. In particular, the amount lent per country should not be raised in order to achieve a resource transfer objective related to current balance of payments difficulties.
Is it agreed that resource transfer objectives should not play a significant role in determining the volume of SAL per country?

(c) A key argument against full additionality is the thought that IBRD operations in the more advanced developing countries should gradually evolve toward more policy-oriented lending and away from traditional project lending. This argument can be countered by stressing that SAL is a tool which is limited to situations in which the balance of payments deficit is unusually high (in relation to GDP) and cannot or should not be reduced abruptly through demand deflation. Should the Board paper make this counter-argument and thus imply that SAL will mainly be applied in high deficit situations?

Not stated

Yes

Yes

Restoring Planned Real Growth

(a) The paper asserts that a FY77 base rather than a FY80 base is appropriate. Should the Board memorandum make the same case? Can additional arguments be marshalled in defense of this assertion?

Yes - in 1977 a [illegible] level [illegible] real [illegible]

(b) Is the proposed "price contingency" technique accepted?

No

(c) Our tactic in the past has been to avoid a "realistic" projection for IDA operations beyond the current replenishment period on the grounds that this could complicate the IDA negotiations. But as part of our effort to quantify additional demands for IDA resources we are assuming that ordinary operations (i.e., excluding China, desirable energy, SAL) should grow at 5% per annum in real terms over the IDA VI level. Any disagreement?

Yes

2. Other items on the agends are:

-- The Bank as "Other Holder" of SDRs. The draft of this paper has been circulated separately. The Committee is requested to approve the draft for circulation to the Board on a "no objection" basis.

-- Potential Request from UNCTAD on Debt. Three memoranda on this subject have been circulated separately. The issue is how the Bank should respond to the UNCTAD request which is expected to be formally received within the next few days.

-- Bergsten Request. Mr. Bergsten has proposed that the Bank and the US Treasury collaborate in the development of a financial simulation model. Mr. Bergsten's letter, together with Mr. Qureshi's response and two subsequent internal memoranda have already been circulated to Committee members.

cc: Messrs. Husain/Jaycox: Please (o/r): Haq/Landell-Mills: Vergin: Waide
DJW:ba

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: November 4, 1980

FROM: Joe Wood

SUBJECT: Agenda for Next Meeting

The principal item to be discussed at tomorrow's meeting of the Finance Committee is the draft Board memorandum on Possible Expansion in IBRD/IDA Lending. A number of other papers have also been distributed to the Committee on the topics covered in the draft Board memorandum, especially in Section 5 of that memorandum. Accordingly, it may be helpful to organize the discussion by topic rather than to take up the various papers separately. I would suggest the following topics:

1. Adjustments in proposed lending to take account of the likely availability of IDA resources.

   The Board memorandum shows IDA lending levels which exceed likely IDA availabilities. The text indicates that the overall IBRD/IDA lending proposals may have to be revised once IDA availabilities are examined in the subsequent memorandum on means of finance.

   The paper on Stretching IDA Resources argues that substantial changes in the IBRD/IDA program will be required. Mr. Vergin's note on the Expanded Lending Program FY82-86 takes the same position.

   In order to be clear about the implications of limited IDA resources, it is necessary to consider how a series of specific points should be handled:

   (a) For the IDA6 period, the expanded program calls for IDA credits of \$13.7 billion. Currently projected availabilities, including \$300 million IBRD transfers, are \$12.4 billion. The gap may be closed by

	Implication for Planned Lending
(i) transferring IDA lending to IBRD through:	
- graduation of Egypt in FY82	IBRD + \$ 400m
- graduation of Cameroon in FY83	IBRD + \$ 40m
- hardened blend in India (per 11/1/80 table)	IBRD + \$1040m
- minor reprogramming in other countries	IBRD + \$ 200m
(ii) reducing the expanded IDA lending program	
- due to political uncertainties	IDA - \$ 150m
- due to modified SAL plan	IDA - \$ 100m

	Implication for Planned Lending
If the hardened blend in India is not assumed, then a gap of about $400 million remains, which can be closed by	
- either additional IBRD transfers	No change
- or reduced IDA lending (e.g., accepting a $12 billion "base" for traditional IDA lending)	IDA - $ 400m

(b) For the IDA7 period, the expanded program calls for IDA credits of $22.9 billion. Various figures have been suggested for likely IDA availabilities:

- $17.2 billion (per 11/1/80 table)	IDA - $ 5.7b
- $18.2 billion (per "Stretching IDA" note)	IDA - $ 4.7b
- $17.2 billion + China	IDA - $ 3.1b

(c) Modifications to planned IBRD lending include:

- graduation of Egypt	IBRD + $ 540m
- hardened blend to India	
per "Stretching IDA" note	IBRD + $1300m
per 11/1/80 table	IBRD + $2230m
- minor reprogramming in other countries	IBRD + $ 270m

Depending upon which set of adjustments are adopted, the total IBRD/IDA program will differ to a greater or lesser extent from the program shown in the draft Board memorandum. Two internally consistent "revised" programs will be circulated shortly: one outlined by Mr. McNamara on 11/1/80; the other a new proposal from FPA.

2. <u>Adjustments in proposed lending to take account of lack of project content.</u>

Mr. Vergin's note highlights the need for a major project preparation effort and/or a review of the guidelines which influence the average size of Bank loans.

How should the draft Board memorandum (para. 45) be modified in light of these concerns? In particular, should the lending levels shown for FY82 and FY83 for traditional lending (i.e., ordinary projects) be scaled back? If so, how much? Should the guidelines on local cost financing be modified, especially in the middle-income countries?

3. Adjustments in proposed lending to take account of creditworthiness concerns.

   Mr. Vergin's note also emphasizes the rather substantial increases in IBRD lending which would need to be allocated to countries where creditworthiness concerns are important. SAL, if it is requested and if it works, may alleviate those concerns to some extent. Similarly, increased allocations to higher-income and to oil-exporting countries (e.g., Romania, Argentina, Mexico) would alleviate the concern.

   How should the draft Board memorandum (para. 49) be modified in light of these concerns?

   Should an attempt be made to have a "quick look" at creditworthiness/borrower receptivity issues in a few key countries (e.g., India, Egypt, Kenya, Thailand) before the Board memorandum goes out?

4. Other qualifications to the expanded lending proposals.

   The draft Board memorandum indicates at several places that the proposed lending levels are far from firm (e.g., China uncertainties; demand for SAL). Should a paragraph be added indicating that, in the event some of this lending does not materialize, the resources mobilized in support of the program would simply last longer? In other words, there is not much risk that effort will be wasted.

Committee members have also received from Mr. Stern a draft memorandum on the Energy Affiliate. A condensed version of this memorandum is currently under preparation. It is likely that management attention will initially focus on the condensed version. This will be distributed to the Committee as soon as it is available.

DJW:ba

CONFIDENTIAL

FINANCE COMMITTEE MEETING

November 5, 1980

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Gabriel, Golsong, Rotberg, Thahane, Wood, Applegarth, Lafourcade

I. Board Paper on Expansion in IBRD/IDA Lending Program

1. Mr. McNamara said that the draft paper was excellent, but that several points of substance required examination. In particular he suggested focusing on the size of the FY82-86 energy program and the level and blend of lending to India.

The Committee first made some general comments on the paper. (As most of these comments were reflected in the final paper, in general only those not appearing in the paper are reflected here.) Mr. McNamara added that the paper should incorporate a discussion of the greater need for financial intermediation caused by the 1979 oil price increases. OPEC surpluses were $80 billion larger than expected. An enhanced IBRD and IMF role in financing deficits would be an important means of addressing the need for intermediation. Mr. Stern commented on the deflators, indicating that he believed they understated inflation. He said it was a problem of methodology with the result that the international cost reflected in the deflator understated the likely impact on projects. Mr. McNamara asked Mr. Qureshi to reexamine the methodology for the deflators.

2. Mr. Thahane pointed out that the changes in the external environment identified in the paper created other needs for Bank services in addition to lending. He mentioned particularly the need for additional technical advice in economic analysis.

3. The Committee next focused on the size of the energy program. Mr. McNamara indicated that the proposed program for energy in FY81 was $2.7 billion, i.e. $400 million above the existing program. He indicated this was a standard against which the operating departments would be judged. Even though the energy affiliate was not yet in place, the Bank Group's objective was to finance the desirable program for energy and that any identified desirable lending not in the existing program should be incremental to the FY81-82 energy program.

4. Mr. McNamara also said that the expanded lending program

should be processed using the same procedures and quality standards now in existence for IBRD loans. There would be no change in the local currency financing procedures, and traditional project standards would be preserved.

5. Lending to India: The Committee agreed that total Bank Group lending to India in Years 82-86 should provisionally be $13.9 billion, i.e. a 25% increase over existing program. Mr. Stern indicated that he did not believe India could borrow $1.5 billion a year on IBRD terms and that therefore the blend should not be hardened to 50:50. He felt India was entitled to its share of concessional developmental resources. Mr. Qureshi also expressed reservations about hardening the blend to 50:50. Mr. McNamara asked Mr. Stern to examine the maximum amount of IBRD lending that could be done in India, given different levels of IDA.

6. Lending to Egypt: Mr. McNamara said he believed Egypt could graduate from IDA in FY82 on both creditworthiness and balance of payment grounds. He also believed there should be no increase in the present program. Egypt did not need the additional funds and its overall performance was poor.

7. Lending To Other Countries: The Committee agreed that the graduation of Cameroon was acceptable and to accept the proposals submitted in a paper by PAB for blend hardening in the years FY84-86.

8. IDA Stretching: Mr. Stern indicated that graduating Egypt would yield savings of $400 million for IDA. He did not believe that India should be reduced in 1982-83. Mr. Applegarth pointed out that the size of adjustment in IDA6 was now $500 million larger than previously anticipated because of the Committee's decision to maintain the timing of the desirable energy program. Mr. McNamara indicated this should come from India during the IDA6 period and Mr. Stern concurred that any adjustments still required should come from India. To reduce the impact on India, the amount taken from IDA might be replaced by twice the amount of IBRD lending.

9. IDA7: The Committee agreed that planning for IDA7 should be on the basis of a $19.8 billion replenishment, i.e.$17.2 billion to provide 5% real growth from the IDA6 level, plus $2.6 billion for China. Mr. McNamara said that the Bank should propose this figure even if it was unlikely it could be achieved. Proposing a figure which might be too high departed from the Bank's usual practice, but in the circumstances it appeared preferable to set a target for donors to achieve.

II. Energy Affiliate

10. The Committee reviewed a draft discussion note which was intended to be forwarded to the eight countries meeting informally in Washington in late November. It was agreed not to send an energy paper to the Board until the Capital Needs Board paper had been considered by the Committee. The Committee cleared the discussion note for submission to the eight countries; Mr. McNamara added that the principal objective of the meeting was to ensure the participation of Kuwait and Saudi Arabia in the affiliate. Mr. Qureshi indicated he would establish a meeting date in the following week and contact the attending countries' representatives.

Mr. McNamara stated that he believed agreement in principle on the affiliate was feasible before the January 20 change in the United States administrations. Mr. Rotberg noted the importance of getting the concurrence of Mr. Reagan in the proposal. Mr. McNamara agreed that as soon as the Secretary of Treasury and the Secretary of State were nominated, consultations could begin. He added that the paper on financing the expanded IBRD lending program should include a recommendation that the Bank should proceed with consideration of an energy affiliate, and prepare a paper for Board discussion.

PVApplegarth:es

Cleared with Mr. Qureshi

January 28, 1981

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: November 13, 1980

FROM: Joe Wood

SUBJECT: Finance Committee - Agenda

There will be a Finance Committee meeting on Monday, November 17th at 2pm in Mr. McNamara's office. The following papers will be discussed:

-- FY82-86 Borrowing Program--prepared by the Treasurer's Department;

-- IFC Borrowing Strategy Issues--prepared by IFC.

PVA:sl

FINANCE COMMITTEE MEETING

December 17, 1980

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Gabriel, Golsong, Rotberg, Wood, Applegarth, Lafourcade

Review of Lending Rate

In response to questions from Mr. McNamara, Mr. Rotberg confirmed that a long-term U.S. issue today would cost 14.7%, and that the borrowing program underlying the proposed lending rate assumed a 75 basis point reduction in U.S. rates. He added that the borrowing authority existed to complete the proposed program, but that the projected costs needed to be revised in light of recent market developments. Mr. McNamara asked him to prepare a program incorporating his best estimates.

Mr. Qureshi proposed an alternative to the 9.60 rate recommended in the draft paper being considered by the Committee. He proposed to set the lending rate at a level sufficient to achieve a spread of 50 basis points for FY81 (i.e. a lending rate of 9.80%). Mr. McNamara was unwilling to proceed on this basis. He indicated that he disliked the formula, but since the Board had insisted, he would follow it unless the Bank's long-term income projections were threatened. Mr. Stern added that adjusting the rate to recover the 50 basis points in FY81 would set an undesirable precedent for adjusting the rate in subsequent years to compensate for shortfalls in earlier years.

A lengthy discussion followed, and it was agreed that a final decision would be made following receipt of a new borrowing program, incorporating Mr. Rotberg's latest estimates. To assist the discussion, Mr. McNamara asked Mr. Applegarth to prepare a table showing the lending rates of the IBRD, the IDB, and the AsDB. During the discussion, Mr. McNamara indicated that the Bank's long-term income might be overstated in its projections, because there was at least a 1 in 4 chance that long-term rates would not decline as projected. He felt the potential overstatement was acceptable, as the Bank's income was too high, and the Bank had the flexibility to adjust its income if necessary. Mr. Qureshi said that he would be prepared to take the necessary steps to ensure that the Bank would exceed its income projections.

Subsequent to the meeting, a lending rate of 9.60% was agreed upon, set at 50 basis points above the Bank's estimated double-weighted cost of borrowing, centered on the date of decision.

PVApplegarth:es

Cleared with Mr. Qureshi

January 28, 1981

CONFIDENTIAL

FINANCE COMMITTEE MEETING

December 22, 1980

MINUTES

Present: Messrs. McNamara, Qureshi, Baum (for Mr. Stern), Gabriel, Rotberg, Thahane, Scott (for Mr. Golsong), Waide (for Mr. Chenery), Vergin, Wood, Applegarth, Noon, Lafourcade

FY82 Planning Assumptions, Work Program, and Budget Overview

(i) Lending Programs

China: Mr. McNamara asked if the proposed guidelines included "double-programming", i.e. whether provision was being made for a greater number of staff than required for the presently planned program. He pointed out the need to expand the program quickly, if the Board approved the expanded program, and that the costs to the developing countries of not being able to deliver the expanded program were greater than the risks of temporarily having excess staff if the program was not approved. Mr. Vergin confirmed that the proposed guidelines included provision for \$600 million in China lending in FY82 and \$1 billion in FY83, and that no offset cuts were being proposed in staff allocated to other countries. Mr. Qureshi said that more staff would be needed to meet the full China program. Mr. McNamara said that sufficient staff should be budgeted to deliver the full China program without cutting other countries' programs.

Energy: Mr. McNamara said that similar "double-programming" should take place in the energy sector, and that sufficient staff should be brought on board to deliver an expanded energy program. Mr. Vergin pointed out that the new guidelines did not incorporate an increase above the presently planned energy programs. Mr. McNamara said that this was correct but that consideration should be given to positioning the Bank to increase energy lending above presently planned levels by \$900 million in FY82 and \$1.2 billion in FY83 (i.e. 75% and 57.5%, respectively, of the difference between the currently programmed energy lending and the "desirable" FY82 and FY83 programs).

Priorities: Mr. McNamara said that he hoped total IBRD/IDA lending could be increased, but that if it could not, some lending would have to be diverted from other purposes to China and energy. He asked PAB to estimate the incremental cost of double processing an additional \$900 million of energy lending in FY82 and \$1.2 billion in FY83, the full China program, and a satisfactory number of reserve projects. He indicated that the contingency allowance should not exceed 1% of the total budget (i.e. $4 million). If additional funding was required for energy and China, a budget supplement should be sought. In response to a question raised in the paper being considered, he also asked PAB not to start preparing contingency plans for possible shortfalls in IDA6 and the GCI until May 15.

(ii) Economic and Sector Work

Mr. McNamara asked PAB to identify why the energy sector work program differed between the presently planned and desirable programs. Mr. Baum said there was a difference in the intensity and scope of the Bank's sector work, depending on the size of the program. Mr. Baum said that due to limited resources, sector work was generally limited to those countries where projects were on-going or under preparation. Mr. McNamara confirmed that energy work should report to country needs, and not be limited to those cases where a lending program existed. He asked PAB to focus on the differences between the optimum lending program and what the Bank was presently doing.

Mr. McNamara also asked Mr. Baum to prepare a briefing prior to Mr. McNamara's February trip to India, outlining steps Mr. McNamara should advise India to take in the energy sector.

(iii) Other Items

The Committee agreed that, to the extent possible, work programs should be developed for each of the support areas.

In response to a question from Mr. McNamara, Mr. Gabriel said that a capital budgeting scheme was expected to be in place within two to three months. Mr. McNamara suggested that the scheme not be constrained by accounting conventions; in his view, administrative expense budgets and administrative expenses in the income statements need not necessarily be identical.

Mr. McNamara asked that the budget paper indicate that over the past decade, the developmental contribution per dollar of commitment (i.e. project quality) had gone up. Costs have gone up somewhat on account of the effort to improve quality, which was one reason for the tightness of the current budget. He added that the Bank benefitted from its reputation as a tightly budgeted organization.

Mr. Baum said that the operating departments thought the budget was tight but not impossible; that the departments recognized that support departments had been underfunded in the past, and were prepared to operate under restrictive budgets now to improve their support. The energy department and CPS were the only areas where the budget was felt to be too constrained. He added that Mr. Stern had undertaken to rearrange the budget within the operating departments, to accomodate CPS and the energy department. Mr. McNamara indicated he would leave it to Mr. Stern to resolve these issues but that Mr. Baum could raise the matter again, if he wished.

Mr. McNamara said that the Bank was not optimizing its non-lending support to developing countries and that he hoped Mr. Clausen and Bank staff could address this issue in the future.

Mr. Waide called attention to the proposed budget for the WDR. Mr. McNamara said that the WDR budget was out of control, and that it was necessary to keep it within the proposed budget. He asked PAB and DPS to review past and projected expenses in detail to ensure this was achieved.

Conclusion: The Committee concluded that the budget planning process should go forward on the basis of a 5% real increase in budgeted expenses, and that it agreed with the programmatic implications of that course of action as set out in the FY82 budget overview paper.

PVApplegarth:es

Cleared with Mr. Qureshi

December 31, 1980

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: January 29, 1981

FROM: Joe Wood

SUBJECT: Agenda for Next Meeting

A meeting of the Finance Committee is scheduled for Friday, January 30 at 4pm in Mr. McNamara's office. The items to be discussed are:

-- Draft Memorandum on Valuation of Capital. This was circulated to members on January 21. Points to be discussed include

(a) whether a paper along these lines ought to be circulated to the Board as a means of pressing the major shareholders to focus on the issue?
(b) whether all the options mentioned in Section 5 need to be presented and, if not, which should be retained?

-- Mr. Paijmans' memorandum on Budget Issues. A copy is attached.

Attachment
cc: Messrs. Chenery
Paijmans

:ba

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: February 20, 1981

FROM: Joe Wood

SUBJECT: Meeting of the Finance Committee

The Finance Committee will meet on Monday, February 23, 1981 at 10:30 a.m. in Mr. McNamara's office to discuss the following items:

(1) A Capital Budget for Major Investments in Equipment and Furniture - Messrs. Gabriel's and Hattori's memorandum, dated February 11, 1981 addressed to Mr. Qureshi (distributed February 18th)

(2) The Reagan Administration's World Bank Budget Decisions, regarding General Capital Increases - Mr. Colbert King's memorandum, dated February 19, 1981 addressed to Mr. McNamara (attached).

Attachment
cc: Mr. Chenery
/sl

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: March 4, 1981

FROM: Paul V. Applegarth, Chief, Financial Analysis, FPA PVA

SUBJECT: Agenda

The Finance Committee will meet on Monday, March 9, 1980 at 10:30 a.m. in Mr. McNamara's office to discuss the following items:

(1) Energy Affiliate (redraft to be distributed).

(2) A discussion paper for the IDA6's donors' meeting (redraft to be distributed).

(3) Valuation of IBRD Capital Subscriptions: Possible Courses of Action (distributed February 27).

(4) Response to the Brandt Commission Proposal on the "Gearing Ratio" (distributed February 27).

(5) Memoranda from Messrs. Stern and Thahane on attendance at the Gabon Development Committee Meeting (distributed February 26).

cc: Mr. Chenery

PVApplegarth:sl

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: March 17, 1981

FROM: Joe Wood, Dep. Director, FPA

SUBJECT: Agenda

The Finance Committee will meet on Wednesday, March 18, 1980 at 3:00 p.m. in Mr. McNamara's office to discuss the following items:

(1) Energy Affiliate - Basis for Negotiation, redraft dated March 12, 1981.

(2) Valuation of IBRD Capital Subscriptions: Possible Courses of Action, redraft attached.

(3) U.S. Congressional Budgetary Process and IDA6 Memos from Mr. Merriam, distributed March 12, 1981 and Mr. Wood (attached).

(4) Staff Retirement Plan - Financial Projection Memo from Mr. Gabriel, distributed March 12, 1981.

Attachments

PVApplegarth:sl

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: April 7, 1981

FROM: Joe Wood PVA for

SUBJECT: Finance Committee Meeting

Attached please find additional material on the accounting treatment of the proposal Tropical Diseases Research grants, for discussion at this afternoon's Finance Committee meeting.

Attachments

PVApplegarth:sl

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Moeen A. Qureshi, Senior Vice President, Finance DATE: April 7, 1981

FROM: K. Georg Gabriel, Vice President, PBP

SUBJECT: Grant for Tropical Diseases Research Program -- Accounting Treatment

1. The paper distributed to the Finance Committee for its meeting on April 7 recommends that the Bank make a grant of $2.48 million to the TDR program for CY81. This would amount to 10% of the total expected contributions from all donors for the year.

2. Controller's have consulted the Bank's external auditors about the accounting treatment of such a grant and they have advised that the procedure adopted in the past for the CGIAR and Onchocerciasis program grants, namely, of simply recording them as a portion of the IDA transfer, would not be acceptable in this case (or for future CGIAR and similar grants). There seems no choice, therefore, but to record the TDR grant as an administrative expense.

3. Assuming that the auditors stick to their stand, we can proceed in one of two ways. The first is to record the grant as an administrative expense of the IBRD that would reduce net income for the year in which the grant is made. This would be a simple and straightforward approach, and also the auditors' and Controller's Department's recommendation ; however, this option has implications for future initiatives of this kind by the Bank, which may get constrained by concerns about the magnitude of reported IBRD net income.

4. The other alternative is to channel the grant to IDA as part of the Bank transfer and have IDA record it as an expense. While the auditors may reluctantly acquiesce in this procedure, the accounting and administrative steps required would be complicated and cumbersome, and may expose the Bank to criticism that it is using an accounting device to understate the expenses of the Bank. The accounting steps that would be involved are described in the attachment. Administratively, funds would have to be transferred to IDA without designation as to use by the Bank Board, and the IDA Board would have to decide separately to make the grant to TDR.

5. If the decision is to treat the grant as an IBRD administrative expense, the question arises of how the allocations would be fitted into the FY81 and FY82 administrative budgets. The Population, Health and Nutrition Department has informed us that the requirement for CY81 cannot be easily broken down into amounts for the first and second half of the year separately. TDR only makes new commitments against funds it has on hand, and funds from other donors have been delayed this year. Commitment authority is virtually

exhausted. In case the entire allocation of $2.48 million cannot be committed immediately, their preference would be for providing at least half of the amount, i.e. $1.24 million, in the FY81 budget. This would have to be covered through a supplementary budget allocation, as an amount this large could not be absorbed in the existing Bank budget for this year. The balance of the CY81 requirement, together with the amount for the first half of CY82, would have to be included in the FY82 budget. The alternative would be to include all of the CY81 requirement in the FY82 budget. This would have the cost that TDR might not be able to resume unqualified commitments until July, but would avoid the need for a further IBRD budget supplement this fiscal year.

6. If the decision is to have IDA record the grant as an expense, it would be difficult to finance it out of the FY81 transfer (i.e. the one approved last summer) because the Board of Governors explicitly provided that any sums not required for the CGIAR and Onchocerciasis programs would be used for lending purposes.

7. My recommendation is to treat the TDR grant as an IBRD expense, and to include it in the FY82 budget. Do you agree?

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Attachment

Procedure for Recording of TDR Grant as IDA Expense
(see para. 4)

Initially the TDR grant would be treated as a part of the Bank transfer to IDA and would be shown on IDA's books as a receivable from the Bank on the Asset side of the Statement of Condition and as a transfer from the Bank on the Liabilities, Subscriptions, Supplementary Resources, Transfers and Accumulated Net Loss side of the Statement of Condition. When the grant is paid out by IDA, it would be removed from the Bank transfer amounts on the Statement of Condition and included as expenses for IDA for the period in which it is paid.

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Mr. Lafourcade

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: April 6, 1981

FROM: Joe Wood

SUBJECT: Agenda

The Finance Committee will meet on Tuesday, April 7, 1981 at 4:30 p.m. in Mr. McNamara's office to discuss the following items:

(1) Contribution to Tropical Health Research. Mr. Evan's memo, distributed March 31, 1981. A brief note on the accounting aspects of this issue will be distributed tomorrow.

(2) Variable Rate Borrowing Program. Mr. Rotberg's memo, distributed March 31, 1981.

(3) Staff Retirement Plan - Financial Projection. Memo from Mr. Gabriel, distributed March 12, 1981.

/dsr

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M: File

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: June 24, 1981

FROM: Joe Wood

SUBJECT: Minutes

Attached please find Minutes of June 9, 1981 Finance Committee Meeting.

Attachment

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CONFIDENTIAL

FINANCE COMMITTEE MEETING

June 9, 1981

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Gabriel, Golsong, Rotberg, Thahane, Wood, Applegarth, Lafourcade

Lending Rate Review

1. Mr. McNamara asked each member to state what he thought the lending rate should be. Mr. Qureshi said 11.25, Mr. Thahane 11.00, Mr. Rotberg 11.25, Mr. Applegarth 11.25, Mr. Stern 10.60, Mr. Golsong 10.80, Mr. Gabriel 11.25, and Mr. Wood 11.00. Mr. McNamara decided that the rate should be 10.60%.

2. Mr. Stern asked if the recommendation could be effective for loans circulated after June 30. Mr. McNamara agreed.

3. Mr. Rotberg said he believed the Bank's long-term profit figures were suspect. Mr. Rotberg believed that the Bank's present forecast that short-term rates would be only slightly below long-term rates in a sharply deflationary environment with falling rates was unlikely. Mr. McNamara said he wanted the Bank to be managed with a high probability that profits would be at acceptable levels. Mr. McNamara asked Mr. Rotberg to identify assumptions he thought were reasonable so that projections could be made based on them. The Bank should then identify strategies for achieving an acceptable level of income under each alternative scenario.

4. Mr. Qureshi reopened the discussion of the lending rate to be set July 1st. He said he believed 10.60 was too low, and would raise questions in the Board and in the financial markets about financial management of the institution. He believed that the divergence from the adopted lending rate policy was too great, and while he could accept less than a 50 basis point spread, he thought the phasing should be faster. Mr. Wood supported this position.

5. Mr. Stern said the uncertainties regarding interest rates were very high and that the financial costs of waiting until September 30 to make an adjustment were small. He did not believe raising the rate to 11.25% now and then reducing it on September 30 would be desireable. Mr. Qureshi believed there was very little chance the rate would be below 11.25% on September 30.

6. Mr. McNamara said that, ideally, the Bank should not raise its lending rate by more than 50 basis points at a time. It should raise its rate weekly, if necessary, to avoid doing so.

7. After further discussion, Mr. McNamara reconfirmed that the rate should be 10.60%.

PVApplegarth:sl
June 24, 1981

File

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Finance Committee

DATE: June 23, 1981

FROM: Joe Wood

SUBJECT: Minutes

Attached please find Minutes of June 18, 1981 Finance Committee Meeting.

Attachment

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CONFIDENTIAL

FINANCE COMMITTEE MEETING

June 18, 1981

MINUTES

Present: Messrs. McNamara, Qureshi, Stern, Golsong, Rotberg, Thahane, Wood, Applegarth, Lafourcade

Maintenance of Value

1. Mr. Qureshi reported briefly on the present situation regarding maintenance of value and the on-going efforts to reach an agreement. Mr. McNamara emphasized the urgency of reaching a decision quickly to avoid jeopardizing the GCI and the lending program.

2. The Committee approved a paper to be circulated to the Board, which could serve as a statement of the sense of the Board on the interim procedures with respect to maintenance of value.

3. Mr. McNamara decided that the technical note on the SDR as a unit of account should not be distributed. The note raised a number of issues which could complicate the discussion, and which might create a delay.

PVApplegarth:sl
June 23, 1981