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WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/01/23 DUE DATE : 00/00/00
LOG NUMBER : 900125018 FROM : Mr. Stern
SUBJECT : Meeting with the General Director of the Staatsbank of the DDR

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

ACTION:

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

COMMENTS :cc: Members of the President's Council.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

PCFIN90-2

CONFIDENTIAL
January 23, 1990

TO: Mr. Barber B. Conable

FROM: Ernest Stern, FINSV ES.

SUBJECT: Meeting with the General Director of the Staatsbank of the DDR

Today, Messrs. Thahane, Wood and I met with Mr. Wolfgang Krebs, General Director of the Staatsbank of the DDR. He was accompanied by Mr. Moeller, Commercial Attache of the Embassy of the DDR and Mr. Fiedler of the Staatsbank. Mr. Krebs stressed that his visit was an exploratory one, undertaken after full consultation with the Government, to gather information on closer collaboration with the Bank and, possibly, membership.

Mr. Krebs initiated the discussion with an overview of recent developments and plans for the future in the DDR, emphasizing that he wished to focus his remarks on the economic sphere. The objective of the reform plans is to move from a centrally-planned economy to a market-oriented mixed economy. With this objective in view, the planning agency has already been dissolved and initial steps have been taken to open the economy to foreign investment. The longer-term strategy comprises four main elements: price reform; measures to achieve macroeconomic balance; establishment of private and cooperative ownership to coexist with state ownership of property; and opening the economy to international market forces.

Work is already underway to establish the legal and institutional framework to encourage foreign investment and private and cooperative ownership of property. Price reform is seen as essential if firms, whatever their form of ownership, are to be held accountable for their results. The Central Bank sees a need to establish its independence with regard to money creation and dissociate itself from the commercial bank functions it now performs. They have already sought advice from other central banks on this matter and a decision has been taken to establish an independent central bank responsible for monetary policy. Commercial banking will be done by "universal" banks. The existing cooperative bank, savings bank and agricultural bank will expand their commercial banking operations and the commercial bank component of the Staatsbank will be spun off. Mr. Krebs expressed concern about the excess liquidity now in the system and the extent of the subsidy on basic consumer goods (estimated at 50 billion marks). Policymakers recognize that more extensive participation in world trade could lead to more productive use of national resources over the longer term. While a fully convertible currency is seen as an essential part of the program, there is not yet a consensus on how quickly to move in that direction.

With the goal of opening the economy, Mr. Krebs explained that the authorities have given consideration to widening their relations with multilateral institutions beyond their active involvement in the UN. For this reason, they wish to gather information about the World Bank and IMF so that they could examine the possibility of joining the two organizations. Without making any commitment, Mr. Krebs did make it clear that they had already weighed some of the "consequences" that membership entailed.

Messrs. Thahane and Wood explained how to apply for membership and what the financial implications are likely to be. They emphasized that we expected new members to join IDA, IFC and MIGA as well. Mr. Krebs was interested to know what distinctions are made among members, especially how members are classified as borrowers/non-borrowers. Mr. Thahane gave the visitors detailed documentation regarding membership and more general information on the Bank.

Mr. Krebs and his colleagues will visit the IMF this afternoon and Mr. Ryrie tomorrow morning.

cc: Members of the President's Council

Meeting was cancelled - per his office.

Deutche Bank
89-09.12-010

September 23, 1989

Mr. Conable

Barber -

Herrhausen Proposal

You have already received a briefing note from Mr. Qureshi (9/21/89) on Mr. Herrhausen's proposal. I regret that no effort was made to make this a joint note, which would have reduced your reading volume.

The basic elements of the Herrhausen proposal are:

- drastic, phased reduction of interest payments, for 5 years;
- principal reduction of up to 50% after 5 years;
- participation by all creditor commercial banks, either in this package or in new money;
- harmonization of regulatory and tax framework;
- Bank/Fund to determine policy conditionality and capacity to pay by debtor countries. Implied in this is a move towards stronger central management of the debt workout process;
- credit enhancement of "residual" commercial claims---not clear what exactly this means.

I agree with much of what is said in Mr. Bock's note but would add some basic points:

- Mr. Herrhausen is a great activist. You need to be careful, therefore, in how you comment on his proposal because he will use actual or implicit Bank support in his further lobbying.
- The core flaw in the proposal is the massive substitution of the official sector in the decision-making process. The proposed enhancement of new money will require official support as will getting the banks to participate in a "General Offer."

- The substitution of a "General Offer" for a case-by-case approach is another major problem. Politically, it is premature at best and will certainly attract strong opposition in the G-7. Conceptually, it has the problem of treating the needs of all countries identically. For some, the proposal may not be enough; for others, it may be excessive. That part is economically unsound; it will be accepted only by those banks who want to get out of LDC lending completely.

- In addition, announcing an agreed schedule for all debtors in advance will make it very much more difficult for us, and the Fund, to work out the required programs of adjustment. It will inevitably tempt countries to define "acceptable" arrears and proceed on that basis---whether they are doing an adequate job at adjustment or not.

- There are other issues of less immediate importance which are troublesome. I do not suggest you raise these matters.

- The requirement of a common tax and regulatory treatment is said to be a pre-requisite. The Bank and Fund influence in achieving this is blithely assumed. In fact, our influence on the issue is quite limited. The major regulatory differences have been substantially reduced by the agreed capital adequacy rules of the BIS. But the tax treatment still differs substantially. And to get the banks here, and in Japan, better tax treatment is no short-term task. Also, Mr. Herrhausen's view, which he is disseminating in his speeches, too, that Bank and Fund dialogue now is exclusively focussed on debt (see p.2 of his letter) is fundamentally wrong, is bad advertising for us, and indicates that Mr. Herrhausen does not understand either the scale of adjustment which has already taken place or our role in it.

While we should appreciate the efforts to keep putting new ideas on the table---since other approaches may need to be explored next year or the year thereafter---we should make it clear that now is not the time to push further until the current approach, and the deals worked out under it, has had a chance. Depending on how matters develop, we may need to explore alternatives---including some of Mr. Herrhausen's ideas.

Ernest Stern

CC: MH

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 21, 1989

TO: Mr. Barber C. Conable, EXC

THROUGH: Mr. Moeen A. Qureshi, OPNSV MAQ

FROM: David Bock, CFSDR D Bock

EXT: 72942

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

Introduction

1. Dr. Herrhausen has outlined a debt service reduction proposal which is fundamentally different from the Brady initiative. The proposal calls for a negotiated concerted action which will involve all commercial creditors and provide equal debt service relief for all participating debtor countries. A fundamental premise of the proposal is that new money is not only very unlikely to ever again provide sufficient and adequate financing relief, but that is in itself undesirable.

2. We think the proposal deserves your attention not only because it comes from Dr. Herrhausen, the chairman of one of the world's leading banks, but also because it echoes aspects of views voiced by other prominent bankers and people from the academic community. Proposals of the kind advocated by Dr. Herrhausen are likely to gain very considerably in their appeal and their viability should the current debt strategy fail ultimately to generate for the heavily indebted countries sufficient relief to put the debt crisis behind us. However, we frankly doubt the time is ripe for the necessary political initiatives which are pre-conditions for the plan to work.

3. Dr. Herrhausen's proposal (briefly described and analyzed below) was presented in a speech at the end of March 1989. On the occasion of the annual meeting, Dr. Herrhausen has written you to ask to meet you to discuss your thoughts on this issue.

4. In his letter, Dr. Herrhausen states that the Mexico deal has distracted attention from the overall necessity of debt relief for a large group of heavily indebted countries. For the plan to get off the ground, Dr. Herrhausen suggests that the Bank and the Fund (i) spell out and apply criteria for debtor country participation in a generalized debt service reduction program (ii) start pressuring creditor countries to implement appropriate tax and regulatory frameworks to facilitate banks' participation in such a program and, (iii) establish a standing international economic conference which, in cooperation with respective Bank Advisory Committees, would create

P-1867

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

<u>Description of Dr. Herrhausen's Proposal</u>

5. The proposal, with the indicative numbers from Dr. Herrhausen's speech, can be summarized as follows:

a. All selected countries which are willing to engage in a program with macro-economic conditionality determined by the Bank and the Fund, would be offered the following:

b. All eligible debt would be granted 25-30 years tenor and 5-7 years grace.

c. During the first 5 years, interest would be reduced progressively to 50% of current levels, (it is not entirely certain that Dr. Herrhausen envisages all participating countries to receive the same reduction). Meanwhile, banks would create (tax deductible) provisions in respect of their claims in the amount of up to 50%.

d. After 5 years, interest rates would be brought back to market levels at that time and, to compensate, principal would be reduced either immediately or progressively to 50% of its original face value with recourse to the accumulated provisions.

e. The <u>debtors</u> (1) may issue convertible bonds in non-dollar currencies, (2) issue betterment (i.e. recapture) clauses, and (3) would have to agree to "claw-back" clauses which would come in effect if the country does not comply with conditionality establish by the Bank and the Fund.

f. The <u>"creditor governments"</u> would be required to change tax and regulations as appropriate, grant generous Paris Club reschedulings, and implement a flexible policy for their export credit insurers.

g. Dr. Herrhausen mentions that banks which do not wish to participate in the plan can provide new money, recycle interest payments (i.e. capitalize interest payments due), and/or choose among other (not specified) options. This point somewhat contradicts the overall idea of the plan; more details would be needed to evaluate its appropriate role in the proposal.

6. At the end of the speech, and somewhat detached from the proposal, Dr. Herrhausen states that no more lending in the foreseeable future can be expected from the commercial banks. "At best, the banks would sustain their engagement in short term trade

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

Issues to be Addressed

7. The proposal has both a number of attractive features and a number of issues which have to be addressed. Compared to the Brady plan, it distinguishes itself in advocating a concerted debt service reduction action and refuting any suggestion that new money continues to be a sensible option. Thus, Dr. Herrhausen emphasizes the exigency of a general debt service reduction plan; the debt issue has changed from being a liquidity crisis to become a solvency crisis, and an insolvent debtor needs debt relief, not new money, which results in more debt.

8. The acknowledged need for debt service relief provided by the commercial banks is an attractive feature in Dr. Herrhausen's proposal. The possibility for success of the proposal in effect does not hinge on official resources for debt service reduction provided. Thus, the proposal, as such, could work without the official sector sponsored credit enhancement involved in the present strategy. Dr. Herrhausen envisages, however, the deal to be an exit vehicle for the banks, leaving all residual financing to the multilateral and bilateral creditors. Therefore, at the end of the day, it is not certain if the official sector ends up with a larger share of the debt or not. But it does indeed seem certain that the short term cash flow relief now provided by (involuntary) new money would have to be provided entirely by official funds.

9. The proposal raises a number of political issues which have to be addressed. The plan includes some of the features of earlier times' "grand solution" schemes with equal treatment for all, banks and debtors alike. Dr. Herrhausen's speech in March outlining the proposal was called "The Time is Ripe" but, is the time indeed ripe for such a major political move?

10. A pre-condition for the plan to work is an overall harmonization of tax and regulatory treatment in the industrialized countries. The framework of taxes and regulations presently in place was basically created to fit each country's banking system and, even though general agreement exists on the need to move toward harmonization, it has to be doubted whether policy makers in all major countries are ready to make the necessary detailed adjustments of their regulatory and tax frameworks at this stage.

11. The case by case approach has been favored despite its weaknesses because of the differences between debtors. Is the entire community of qualified highly indebted countries ready to change this approach and accept one concerted negotiation determining the price

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

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

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

ENielsen/AToft:rmc

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

BARBER B. CONABLE
President

September 15, 1989

Messrs. Qureshi, Stern and Fischer

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

Barber Conable

Attachment

DR. ALFRED HERRHAUSEN

TAUNUSANLAGE 12
6000 FRANKFURT 1
TELEFON (069) 7150-3011

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

U.S.A.

Frankfurt, September 1, 1989

Dear Mr. Conable,

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

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

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

- The Bank and the Fund would have to resolutely assume their several roles as overall arbiters in deciding which countries, in fact, qualify for the banks' General Offer. Spelling out and applying criteria determining which countries deserve and/or need the benefits which will emanate from the Offer, is of cardinal importance.

- The Bank and the Fund, with their combined weight and expertise, will also have to exert their influence on member governments to ensure that tax and regulatory regimes are harmonized and generally made more conducive to the participation of as many banks as possible in the General Offer.

DR. ALFRED HERRHAUSEN

TAUNUSANLAGE 12
6000 FRANKFURT 1
TELEFON (069) 7150-3011

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

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

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

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

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

With best regards, I remain,

Yours sincerely,

Alfred Herrhausen

Comm

July 13, 1989

Mr. Conable

Barber

Your Meeting with Mr. Androsch on July 14, 1989

Until March 1988, Mr. Hannes Androsch was the Chairman of Creditanstalt, Austria's largest Bank. Previously, Mr. Androsch had been Minister of Finance in the Kreisky government. Press reports show that he left Creditanstalt partly as a result of his trial for tax evasion. Since then, we understand from Mr. Luschin that he has been an international consultant and has his own auditing company.

His current relationship to the Austrian authorities is unclear, but from his former stature as Finance Minister, he could be an informal channel to the Austrian government. If you feel he would be such a channel, you might get across the message that we were quite disappointed with the position taken by the Austrian Deputy at the recent IDA-9 meeting in Copenhagen.

The key burden sharing indicators point very clearly toward an increase in Austria's share, but the Deputy tried to side-step the issue by referring to some highly implausible arguments about IDA's share in Austrian ODA. In effect, he argued that a weak overall aid effort justifies a weak effort in IDA. I rejected this argument.

Ernest Stern

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: July 12, 1989

NAME	ROOM NO.
Mr. Conable	
(Through:	
1. Mr. Jaycox	
2. Mr. Karaosmanoglu) AK.	

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

REMARKS:

Attached is a briefing note for your meeting with Dr. Androsch on Friday, July 14. I will attend together with Moina Varkie, the task manager for the Botswana financial sector work.

FROM: Sven Sandstrom	ROOM NO.: J11-065	EXTENSION: 34035

cc: Mr. Qureshi (O/R)

Briefing for Mr. Conable

Meeting with Dr. Hannes Androsch

Dr. Androsch will come to your office at 8.30 am Friday, July 14. We assume that he would like to thank the Bank for the opportunity of leading a mission to carry out a financial sector review in Botswana, and discuss the lessons learnt from this operation.

His background

Dr. Androsch has been Minister of Finance of Austria (1970 to 1981), the country's Vice Chancellor (1976-81), chairman of the IMF Interim Committee, and head of Austria's largest commercial bank, Kreditanstalt (1981-1988). He is now doing high-level consultancy work, especially in the Eastern Bloc.

Bank connection

The Bank financial sector mission he led to Botswana aimed to support diversification of the mineral-dependent economy. Key recommendations of the report have already been implemented. The operation was widely praised for:

- its highly collaborative nature, Bank and Government people working closely as a team (Botswana's Vice President, Peter Mmusi, who is also Chairman of the African Caucus, has written to us holding up the experience as a model of how the Bank should do its economic and sector work in Africa -- please see attached letter to Mr. Jaycox);

- its long-term view of Botswana's diamond wealth, drawing extensively on the experiences of other countries faced with large windfall gains.

Suggested discussion points

o Thank Dr. Androsch for his outstanding leadership of the Bank mission (Sven Sandstrom has responded on your behalf to a letter Dr. Androsch sent you -- please see attached). Give Dr. Androsch credit for recognizing the potential for Government-Bank collaboration, and doing everything to engender this.

o Ask him what lessons the Bank can learn from the Botswana experience (on our part, the Africa Region has analysed the factors that we think made the study a success, and is disseminating this information to regional staff).

o Ask Dr. Androsch about his recent work as a high-level adviser in some of the Eastern Bloc countries. His insights into perestroika and the free-market movement could be valuable.

AF6CO/12 July 1989

Mr. Lawston

TELEPHONE: 355272
TELEGRAMS: FINANCE
REFERENCE: FDPC.3/7/12

89 JUL 10 PM 5:2

REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE & DEVELOPMENT PLANNING,
PRIVATE BAG 008,
GABORONE

RECEIVED
89 JUL -7 AM 10:44
OFFICE OF RVP
AFRICA REGION

16th June, 1989.

Mr. Jaycox,
Vice President,
World Bank,
1818 H. Street N.W.
WASHINGTON, D.C.
U.S.A.

Dear Mr. Jaycox,

I wish to convey to you my Government's deep appreciation of the World Bank's contribution to the Botswana Financial Sector Study, entitled Financial Policies for Diversified Growth, the final version of which is about to be released. The report itself is excellent. It provides a good assessment of the strengths and weaknesses of Botswana's financial system, and it contains numerous thoughtful and practical proposals for policy and institutional reform.

Valuable as the report is for its analytical rigour and policy recommendations, its impact will be all the greater because of the manner in which it was produced. It is about the process rather than the product that I wish to write to you today.

The Botswana Government has not been alone among the World Bank member countries in wanting to have a more collaborative relationship with the Bank with regard to the conduct of economic and sector work. As Chairman of the African Caucus and frequent participant in Commonwealth Finance Ministers, SADCC and many other meetings of Ministers and Senior Officials of Third World countries, I have heard many complaints about the apparent inability or unwillingness of the Bank to work with local institutions in a genuinely collaborative manner. There is a widely-held concern that decisions about the Bank's country strategies, its economic and sector work programmes and its lending operations are taken in Washington without adequate discussion with member countries.

2/...

The involvement and advice of counterpart agencies in the host countries is not often sought when the issues to be addressed in the Bank's analytical work and research, and the timing and composition of economic and sector missions, are agreed. As a consequence, the local Ministries, research institutes and universities in member countries tend to feel left out of the process, or even undermined by the Bank's preemptive work in areas in which they have some analytical competence or special interest.

It should not be altogether surprising, in the absence of a more collaborative approach to economic and sector work, that World Bank reports do not always receive the response and acceptance which they deserve. Indeed, there is a very natural tendency on the part of Ministers and senior officials to react in a hostile or defensive way when they receive World Bank reports ontheir economies and management of policy issues which were prepared ny missions whose terms of reference were formulated independently; many of whose members were unfamiliar with the country and thus dependent on local studies or expertise to prepare their chapters; which descended on their countries at short notice or at inconvenient times; and which drafted, debated, revised, obtained final approval for their reports with little or no meaningful host country involvement.

If I have overstated the case, it is because i wish to contrast experiences often cited by member governments with the way in which the Botswana Financial Sector Study was conceived, and carried out. You will recall that it was I who first suggested that we should work jointly on this study when I met you at the 1987 Annual Meetings in Washington. This was not a piece of Sector work which the Bank decided to undertake because <u>it</u> needed to support lending operations in the sector or to broaden <u>its</u> understanding of the economy. We agreed <u>together</u> that it was an important sector to examine more closely. The study was then included in the Bank's programme of work for Botswana and, once budget resources and team members were identified on both sides, the task was planned and executed as a joint operation. The International Finance Corporation was involved in the work, as well as the Bank of Botswana and my own Ministry.

I do not know how the Botswana Financial Sector Report compares with other similar reports with regard to the amount of Bank resources it consumed or the length of time it took to prepare.

From our perspective in Botswana, it was a most efficient operation. In little more than a year after the idea of the study was mooted and agreed, we were looking at a first draft which contained much useful background analysis and some very interesting and timely proposals. Those people in the Bank of Botswana and the Ministry of Finance and Development Planning, who had reviewed the initial issues paper, organized the meetings for the main World Bank mission last October, collected the papers and data, drafted parts of the report, suggested changes and additions at various stages of its preparation , and participated in its final review in Washington, naturally felt a strong sense of identity with, and pride in the final product. It is not at all surprising that serious consideration had been given to several of the more important recommendations, by the Board of the Bank of Botswana and within the Government, long before the report was finalized, or that major policy changes were made, as proposed in the report, even prior to the final visit of the World Bank team to discuss the report.

I fully appreciate that it may not be possible to operate in all member countries, or to produce all economic and sector reports, in this manner. But our experience with the Botswana Financial Sector Report reinforces my conviction that the World Bank should actively seek to function in this way, rather than to work ikn the rather independent, even autocratic, fashion to which its member countries object. I am sure that you will discover a greater willingness to collaborate and better end results, in terms of country impact, if economic and sector work is planned and executed through a genuinely collaborative process. It is interesting to note that a number of other international and bilateral agencies, notably USAID with its contact and reference groups, have been working in this manner for some time, to good effect.

Finally, I should like to thank you, once more, and all your managers and staff who participated in and contributed to the production of the report. To Dr. Hannes Androsch, who led the World Bank team, to Mr. Alan Gelb and Ms. Moina Varkie, who did such an outstanding job of drafting and presenting the report, we owe a special debt of gratitude. I hope very much that all of those who were associated with the report concluded, as we did, that the way in which this task was accomplished is the way in which we should work together in the future.

4/....

Please forgive the length of this letter but I felt that I owed it to my fellow finance and economic Ministers in Africa and elsewhere to use the Botswana Financial Sector Report as an example of how the process and impact of the World Bank's economic and sector work could be improved, to our mutual benefit.

Yours sincerely,

P. S. Mmusi

P. S. Mmusi
VICE PRESIDENT AND MINISTER OF FINANCE AND DEVELOPMENT PLANNING

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 11, 1989

Dr. Hannes Androsch
Opernring 1/R/3/306
1010 Vienna
Austria

Dear Dr. Androsch:

Thank you for your letters of June 26 addressed to Mr. Conable, Mr. Jaycox, Mr. Cook and me. I have the pleasure of responding on behalf of the Bank, and expressing our combined appreciation of the quality of your leadership in preparing the Botswana financial sector review.

I'm sure you will know that the Bank is delighted with the success of the review mission and the impact of the report. You point in your letter to two of the main reasons for this success, namely that the Bank responded promptly to the Government's request while there was time to preempt incipient problems, and that collaboration between the Bank's mission members and their Botswana counterparts was exemplary.

I concur that the conduct of the study team should serve as a model for similar operations. I have in fact circulated to my colleagues working in Southern Africa some observations I asked Moina Varkie to prepare on the mission's experience; your own comments will be added to these.

The study's impact, with the Government and the Bank of Botswana acting expeditiously to implement some of the key recommendations, has more than practical value. Judging by comments made by the country's leaders, the operation has done much to cement the mutual trust and respect that has long prevailed between the Bank and Botswana.

You personally can take immense credit for this accomplishment, as you recognized the potential for collaboration, and did your utmost to nurture this spirit.

I look forward to seeing you when you next come to Washington.

My kind regards.

Yours Sincerely,

Sven Sandstrom
Director
Southern Africa Department

cc: Messrs. Conable, Qureshi and Jaycox
cc: Messrs. Messenger, Bonnel, Cook, (Ms.) Varkie, Morris
AMorris/ja
JM

Dr. Hannes Androsch

Mr. President
Barber Conable

World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Vienna, June 16th, 1989

Dear President Conable,

Over the last couple of months I had the pleasure to lead a World Bank Group Mission to Botswana to carry out a comprehensive study of Botswana's financial system. The Mission has been sent there on the request of the Ministry of Finance and the Bank of Botswana. The study has proceeded well and we were able to present an official draft of the report to the Economic Commitee of Cabinet chaired by H.E. President Dr. Q.K.J. Masire. The report has been well received by the authorities in Botswana. Indeed a number of its recommandations have already been implemented even before the final completion of the report sometime in june. It will be the basis for a White Paper of the government to be presented to Parliament. At that stage I would like to express my gratitude for having been intrusted with this interesting and stimulating task. The cooperation between all members of the Mission was excellent and I would like to convey briefly the observations of our experience to you.

1) It was important that the report was carried out on the request of the Government of Botswana and the Bank of Botswana. The request was based on the intention to provide a kind of preventive medicine instead of a curative one.

2) This preemptive approach was carried out as a joint effort and collaborative work of the Mission and the Botswanian authorities. As a result steps of implementation have been taken even before the final report has been officially presented. It seems to me that this kind of approach and its results could present a good example in several other similar cases.

I hope that this information is of significance for your considerations and challenging work. I hope to have an opportunity to visit you during my next visit in Washington in early July.

In the meantime I am with my kindest regards

Yours sincerely

Hannes Androsch

Dr. Hannes Androsch

Office: Opernring 1/R/3/306 1010 Vienna Tel.: 0222/586 10 54
Fax.: 0222/587 26 88

6/15
2:30

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/06/15 DUE DATE : 00/00/00
LOG NUMBER : 890615013 FROM : K. Lay (ES)
SUBJECT : BRIEFING: meeting with Lord Camoys, Director of Barclays Bank PLC on Thursday, June 15, 1989 at 2:30 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS :cc: MH, JVolk

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 15, 1989

TO: Mr. Barber B. Conable, President

THROUGH: Mr. Ernest Stern, FINSV ES.

FROM: Mr. Kenneth G. Lay, FODG3 KGL

SUBJECT: Your Meeting with Lord Camoys, Director of Barclays Bank PLC

Lord Camoys, Director of Barclays Bank PLC, will pay you a short courtesy call. He would like to discuss the progress of recent debt initiatives and also brief you on the latest developments at Barclays Bank and Barclays De Zoete Wedd during the last year as well as their future plans. He is not planning to talk about any specific products. His resume as well as an organization chart are attached.

Barclays De Zoete Wedd, the holding company for the international investment banking arm of the Barclays Group, sole-managed our most recent Pound Sterling borrowing which was a public issue in the U.K. domestic market for GBP 35 million. This transaction represents a further issue of the Bank's GBP 200 million 11-1/2 percent loan stock of 2003. The proceeds of this transaction were swapped into floating rate USD funds.

The significant point about this borrowing is that this was the first time in the history of the Bank's Pound Sterling borrowings that Baring Brothers did not lead manage an issue. Barclays is very grateful to the Bank for this opportunity and Lord Camoys may touch upon this recent transaction.

Background

Barclays de Zoete Wedd (BZW) is the international investment banking subsidiary of Barclays Bank PLC formed 3 years ago as a result of the restructuring of the securities industries in London and stems from the union of stockbrokers de Zoete and Bevan and stock jobbers Wedd Durlacher Mordaunt and Company with Barclays Merchant Bank and Barclays Investment Management. BZW has expanded in the United States, France, the Netherlands and Australia. Today, together with Barings, Warburg, CSFB, Chase Securities, and UBS Securities/Phillips & Drew, BZW is one of the most successful emerging key players in the sterling debt markets.

In 1988 Barclays Bank PLC earned GBP 1.4 billion before taxes on GBP 105 billion in assets. Last year's income, however, was GBP 369 million, after GBP 713 million in provisions, primarily for LDC debt.

Business Relationships with the Treasurer's Complex

With the exception of our latest borrowing, Barclays Merchant Bank has traditionally been a co-manager in our eurosterling issues. They were not, however, a member of our bulldog syndicate. Barclays Bank PLC is an approved swap counterparty with which we have done business in the past.

LORD CAMOYS

Lord Camoys is Deputy Chairman of Barclays de Zoete Wedd Holdings Limited, the international investment banking arm of the Barclays Group.

Educated at Eton and Balliol College, Oxford, Lord Camoys joined N M Rothschild & Sons Limited in 1962 and helped to set up National Provincial and Rothschild London Limited. This later became Rothschild Intercontinental Bank, of which he became Managing Director in 1969.

Lord Camoys became Chairman of the RIB in 1977, after it was bought by American Express and renamed Amex Bank Limited. He joined Barclays Merchant Bank Limited as Managing Director the following year and became Executive Vice Chairman in October 1984. From January 1987 to April 1988 he was Chief Executive of Barclays de Zoete Wedd.

He is also a Director of Barclays Bank PLC, Barclays Development Capital Limited and the National Provident Institution. He is also Governor/Director of the Shiplake Court School Trust Limited and a Director of the British International Rowing Fund Limited.

Lord Camoys is a member of the Court of the Fishmongers' Company and of the Royal Commission on Historical Manuscripts.

January, 1989

BARCLAYS de ZOETE WEDD SERVICES AND STRUCTURE

BARCLAYS BANK PLC

Parent company

BARCLAYS de ZOETE WEDD HOLDINGS LIMITED

Holding company for the international investment banking arm of the Barclays Group

MAIN OPERATING COMPANIES AND SERVICES

EQUITIES

Barclays de Zoete Wedd Securities Limited

Barclays de Zoete Wedd Equities Limited

Barclays de Zoete Wedd Research Limited

Market-making and distribution in:

- domestic and international equities
- convertible and other hybrid issues
- margin instruments, futures and options

Research in domestic and international equities

FIXED INCOME

Barclays de Zoete Wedd Securities Limited

Barclays de Zoete Wedd Gilts Limited

Barclays de Zoete Wedd Research Limited

Market-making and distribution in:

- UK Government securities and other domestic sterling bonds
- US Government and Federal Agency securities
- international debt instruments and swaps
- margin instruments, futures and options

Origination and distribution of:

- corporate bond issues
- commercial paper programmes

Research in economics, currencies and bonds

MERCHANT BANKING

Barclays de Zoete Wedd Limited

de Zoete & Bevan Limited

Barclays de Zoete Wedd Futures Limited

Barclays Development Capital Limited

Corporate finance services as merchant banker for:

- mergers and acquisitions
- disposals
- privatisation
- share incentive schemes
- capital raising: equity issues placings flotations development capital management and employee buy-outs
- specialised loan packages
- syndications
- off-balance sheet financing

Treasury and securities-related foreign exchange services

ASSET MANAGEMENT

Barclays de Zoete Wedd Investment Management Limited

Barclays de Zoete Wedd Property Investment Management Limited

Barclays de Zoete Wedd Portfolio Management Limited

Investment management services:

- fund management for pension funds and other institutional investors
- property management for institutional investors

Portfolio management services:

- investment services for private clients, charities and trusts including unit trust selection service and financial planning

BARCLAYS de ZOETE WEDD SERVICES LIMITED

Support services for the Barclays de Zoete Wedd Group

London · New York · Tokyo

Amsterdam · Auckland · Birmingham · Chicago · Edinburgh · Guernsey · Hong Kong

Madrid · Manchester · Melbourne · Paris · Seoul · Singapore · Sydney

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/05/30 DUE DATE : 00/00/00
LOG NUMBER : 890531002 FROM : M. Qureshi
SUBJECT : Environmental Program for the Mediterranean (EPM) - Mtg. with Mr. Alain Prate, VP, European Investment Bank on June 2 - 12:30.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :cc: J. ~~Tanaka~~, J. Volk (FF)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 30, 1989

TO: Mr. Barber B. Conable, President
Mr. Moeen A. Qureshi, Sr. Vice President, OPN

FROM: Wilfried P. Thalwitz, Vice President, EMN

EXTENSION: 32676

SUBJECT: Environmental Program for the Mediterranean (EPM)
Briefing Notes

1. Attached for your review is a briefing paper for your meeting with Mr. Alain Prate, Vice President, European Investment Bank, on Friday June 2, 1989.

2. Also attached is a briefing note on the present status and proposed directions of the EPM, which summarizes the process we have followed, the present status and the timetable for completing Phase I and some proposals for follow-up activities. Senior Management approval is requested on the following items:

(a) the Regional approach (para. 8);

(b) the processing schedule for the Phase I report, particularly the necessity for review by the President's Council, a possible Board seminar and appropriate reference in the President's Address to the Annual Meeting (para. 14 a);

(c) our proposed strategy for strengthening cooperation with UNEP (para. 14 b);

(d) administrative arrangements for the Mediterranean Environmental Technical Assistance Program (METAP), especially the Region's request for special positions (para. 13 c);

(e) preliminary exploration of the idea of a Mediterranean Environmental Fund (para. 14 d).

Attachments
cc: Messrs. Rajagopalan, Piddington, Warford, Lee, Ettinger
Bouhaouala, Blanchi, Whitford, Wright, Johnson

0390b

BRIEFING PAPER FOR THE MEETINGS OF MR. ALAIN PRATE,
VICE PRESIDENT, EUROPEAN INVESTMENT BANK,
WITH MR. MOEEN A. QURESHI, SENIOR VICE PRESIDENT, OPERATIONS,
AND MR. BARBER B. CONABLE, PRESIDENT, WORLD BANK

June 2, 1989

Context of Mr. Prate's Visit

1. This note supplements the Discussion Paper on EPM and should be read in conjunction with that paper. It does not, therefore, provide background material on the origin, objectives and status of EPM nor on the details of current issues.

2. The role of Vice-President of EIB corresponds to a blend of the functions of Executive Director and Vice-President in the Bank. EIB's six Vice-Presidents represent member countries and, together with the President, constitute the Management Committee, which oversees the operations of the EIB and recommends loans for approval by the Board of Directors, which meets monthly. Each Vice-President has special competence for a geographical area and a management function - in Mr. Prate's case, France, the Maghreb and the budget. Mr. Prate is a top French civil servant with the rank of Inspecteur Général des Finances. He was previously Sous-Gouverneur at the Bank of France and earlier worked for the EEC Commission and as an economic adviser to President de Gaulle.

EIB/Bank Cooperation

3. The European Investment Bank (EIB) was one of a number of aid agencies contacted by the region in early-1987 with a view to partnership in the proposed EPM. EIB's response was very positive and we were able, without real difficulty, to negotiate an EIB contribution of $400,000 (or 27% of the total EPM Phase I cost). While EIB's initial interest in the program may have had a considerable public relations element - to show that they were "doing something" on environment in response to EEC pressure - this has, in the course of the study, broadened to a much more professional interest in the environmental consequences of their lending program and the kinds of environmental investments that could be developed. Recent discussions indicate an emerging EIB interest in the linkages between policies, institutions and investments, an area that EPM stresses but which does not seem to have been a strong point for EIB's overall program in the past. On the other hand, EIB's knowledge of and strong interest in the EEC Mediterranean countries (Spain, France, Italy and Greece), has been of considerable benefit to us in presenting a balanced picture of the whole region. About 90% of EIB's total investments are in the EEC member countries and 5% in the Mediterranean countries with which they have protocols.

4. Relations between the two Banks have remained harmonious throughout Phase I, with regular meetings in Luxembourg, Paris and Washington.

5. To alleviate any EIB concerns resulting from the planned delay in the completion of Phase I, Mr. Thalwitz went to Luxembourg on April 5 for a round of meetings with EIB, including Mr. Prate and the President, Mr. Bröeder. Mr. Thalwitz outlined some of the modifications that he envisaged, which were later incorporated in a letter to Mr. Prate and have since been accepted by EIB.

6. In his discussions, Mr. Thalwitz stressed that the Bank regards EIB as a full partner in EPM and that the intended output of Phase I is a common report, which takes full recognition of the differing requirements of the two institutions - both the emphasis that the Bank puts on the linkages between policies, institutions and investment strategies and EIB's need for a portfolio of soundly-based environmental projects. EIB expressed some discomfort at the Bank's approach, both because of the public pressure they are feeling for early action and their investment orientation, but they do not object if the report goes beyond their immediate corporate strategy, provided those needs are not jeopardized and the report is not unduly delayed. The Region believes that this can be achieved but if any development should threaten this objective, senior management will be advised.

7. During the April meeting, EIB expressed strong interest in maintaining a close relationship with the Bank on future environmental activities and has agreed in principle to support the proposed METAP.

Points for Discussion

8. You may wish to begin by thanking EIB for its generous support of EPM and its understanding attitude towards recent events. Given EIB's concern on the timing of the Phase I report, you may wish to assure Mr. Prate that the restructuring exercise is on schedule, in accordance with the principles outlined in the exchange of letters with Mr. Thalwitz, reminding him that the Bank's objective is to achieve the highest quality product that will have the desired impact on the basin countries and the aid community. You may wish to ask Mr. Prate about the "North-South" implications of the EPM. Will the northern countries recognize an obligation to assist the developing Mediterranean countries in their environmental problems? How can that assistance best be mobilized? While we have agreed to defer discussion on possible new capital funding arrangements, it would be useful to get some preliminary indication from EIB on this point.

9. You may wish to restate the Bank's commitment to continue working in full partnership with EIB on the design and implementation of EPM and its follow-up activities, such as METAP. You may also wish to explore the implications of the EPM providing a bridge which can ensure some consistency of approach in tackling common problems on both sides of the Mediterranean basin, implying some advice from the Bank to the EIB on the environmental impact of their European programs. Furthermore, the Phase I report should provide a number of sound project opportunities for both Banks which can safely proceed, even if policy reform, which we regard as essential for overall long-term progress, is slow to develop.

10. While we understand that Mr. Prate's visit is concerned only with EPM, it would also be appropriate to express the Bank's appreciation for EIB's longstanding and growing role as a cofinancier on Bank projects in the Mediterranean and Lomé Convention countries.

0525b - revision 2

P.Whitford:la

THE ENVIRONMENTAL PROGRAM FOR THE MEDITERRANEAN

A BRIEFING NOTE ON THE PRESENT STATUS AND PROPOSED DIRECTIONS

MAY, 30, 1989

Environment Division,

Europe, Middle East and North Africa Region,

World Bank.

GLOSSARY

Barcelona Convention	The Convention on the protection of the Mediterranean Sea Against Pollution signed in Barcelona in 1976 by the EEC and by all Mediterranean states except Albania
Blue Plan	The integrated planning component of MAP based on alternative scenarios
Contracting Parties	Signatories of the Barcelona Convention: Spain, France, Monaco, Italy, Yugoslavia, Greece, Turkey, Cyprus, Syria, Lebanon, Israel, Egypt, Libya, Malta, Tunisia, Algeria, Morocco and the EEC. Albania is yet to sign; however, it has presently observer status at MAP meetings.
EIB	European Investment Bank
EPM	Environmental Program for the Mediterranean, a joint World Bank/EIB program
MAP	Mediterranean Action Plan, adopted by the Mediterranean countries in 1976 to promote a cordinated regional program for environmental protection
MEDPOL	Mediterranean Pollution Control and Monitoring Program, the pollution assessment component of MAP
METAP	Mediterranean Environmental Technical Assistance Program
PAP	Priorities Action Program, the component of MAP dealing with operational strategies and pilot projects
UNEP	United Nations Environment Program, headquartered in Nairobi, which administers the Mediterranean Trust Fund, established by the Contracting Parties to finance MAP and which manages the MAP Coordination Unit in Athens.

BRIEFING PAPER ON THE ENVIRONMENTAL PROGRAM FOR THE MEDITERRANEAN

I. INTRODUCTION

Origins of the Environmental Program for the Mediterranean (EPM)

1. Pollution of the Mediterranean sea has been well publicized for the last decade or more. More subtle, and perhaps of even greater long-term consequence, have been the continuing processes of deforestation, soil erosion, water resource depletion, destruction of wildlife habitats and deterioration of archaeological and historic sites, particularly in the southern and eastern Mediterranean countries. Population growth rates combined with rapid urban growth have placed increased pressure on the environment and are likely to result in a dramatic acceleration in the degradation of the natural resource base of the Region [1] if no early action is taken.

2. Recognition of environmental problems by the countries of the Region led, in 1976, to the United Nations Environment Program (UNEP) sponsored Barcelona Convention for the Protection of the Mediterranean Sea Against Pollution, which has been ratified by the EEC and all the basin countries except Albania. UNEP sponsored a Mediterranean Action Plan (MAP) to implement the Convention and prepared, with French bi-lateral assistance, the "Blue Plan", which assesses the environmental consequences of rapid demographic and economic change in the Region.

3. Mr. Conable's address to the World Resources Institute of May, 1987 in which he proposed "... a cooperative effort by the nations of the Mediterranean and other international agencies to prepare a long-term campaign to protect that sea and its coasts..." attracted considerable attention in Europe and within international agencies, and subsequent discussion confirmed widespread endorsement of, and support for, a Bank initiative. In late 1987 an Issues Memorandum recommending Bank support for an Environmental Program for the Mediterranean (EPM) was prepared and discussed widely within the Bank. The memorandum proposed a phased approach from initial diagnoses through implementation. Phase I was approved in 1988.

The Three Phases of EPM

4. Phase I of the EPM was to be largely diagnostic - gaining a better understanding of the nature of environmental and natural resource degradation, identifying the broad range of choices in addressing environmental problems and testing the viability of a broad-based assistance program for possible subsequent phase(s). Close collaboration within the Bank, especially between PPR and EMENA, was required and an inter-Bank Review Group has recently been established to provide guidance. Phase I was designed to build upon the

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[1] The Mediterranean Basin includes Spain, France, Monaco, Italy, Yugoslavia, Greece, Turkey, Syria, Lebanon, Israel, Egypt, Libya, Tunisia, Algeria, Morocco, Malta, Cyprus. Albania has not entered into any cooperative agreements.

extensive information already available within other national and international institutions which had worked within the Mediterranean countries. UNEP was to be associated in the exercise and we have drawn upon the work of MAP and the Blue Plan. However relations with UNEP have become strained due to a concern by UNEP that its efforts would be over-shadowed by the Bank. The European Investment Bank (EIB) - their own interest largely driven by growing European environmental awareness and associated political pressure - became full partners in the EPM, contributing both funds and staff to the first phase.

5. The first phase is now drawing to a close. Total expenditure will be approximately $ 1,500,000 including 14 staff years of effort, of which EIB will have funded $ 400,000. A number of technical working papers and country studies have been prepared (Annex 1) and a synthesis report will be prepared by September, 1989 for review by senior and top Bank management. In view of the importance of obtaining commitment from both Part One and Part Two Mediterranean countries, a Board seminar may be warranted. Over the next two months, senior regional management will be reviewing not only the findings of the work to date but also the justification, design and modus operandi of the proposed future phases. Phase II would promote the development of an agenda for action with international and national agencies, and secure the minimum funding necessary to launch the next phase. Phase III would provide technical assistance to prepare policy measures and investment packages which would be implemented either through Bank/EIB lending or through other sources of external finance.

Objectives and Activities of the EPM

Phase	Objectives	Activities	Output
Phase One	Diagnostic	Review exisiting work	EPM Report Working papers
Phase Two	Promotion and Preparation	Workshops Seminars Country dialogue	Program design Modus operandi Agreement on Phase Three
Phase Three	Implementation	Technical Assistance Policy reform Capital Investment	Environmental Improvement

II. FINDINGS OF PHASE I

6. Analysis under the EPM has identified the main types of environmental degradation in the Region, the underlying causes, such as inappropriate economic policies and inadequate regulatory systems, and the appropriate solutions. Descriptions of these problems and the appropriate solutions are summarized in Annexes 2 and 3. While the nature of the problems is fairly

well understood, the underlying causes are less obvious. The EPM has worked to identify the causes so that solutions could be specifically targeted to them. These solutions usually involve a mix of policy measures, regulatory and enforcement actions and investments. For example, input pricing may be more important for reducing industrial pollution than increased regulation or investment in pollution abatement. Thus, a difficult balance must be made in identifying appropriate packages of solutions for each type of problem. This type of analysis has been undertaken for each sector and is being used to formulate an environmental strategy for the Mediterranean which would enable sustainable long-term economic growth through sound natural resource management and protection of the environment. The increased focus on policy and regulatory instruments to achieve environmentally rational behaviour complements and builds upon the scientific orientation of much of the environmental work in the Region today.

III. ISSUES IN FORMULATING THE AGENDA FOR INTERNATIONAL ACTION

7. In formulating an environmental strategy for the Mediterranean, two fundamental questions have been addressed :

Is a regional approach appropriate?:

8. Although individual environmental problems have different degrees of importance to the Mediterranean region as a whole, there are strong arguments for retaining a regional approach:

(i) Cultural identity is important - socio-cultural and historical links are strong within the Mediterranean Basin and a sense of common purpose and interests is strongly felt;

(ii) Commonality of problems will grow - There are already a number of problems in the Region requiring collective action by two or more countries (eg. oil spills, fisheries, some air pollution, specific "hot-spots" such as the Upper Adriatic, etc. see Annex 2). Furthermore, there is consensus that over the coming decades the size and number of these common problems will increase considerably. An example is the depletion of water resources which may lead to greater inter-country sharing of resources. Increased regional trade will increase the probability of oil spills, inter-country disaster management will become a critical issue, trans-national air pollution will worsen and the rapid depletion of shared flora and fauna, especially migratory species, will require regional action. The growth in tourism from North Europe to the southern Mediterranean will further heighten common concern for protection of the sea;

(iii) Similarity of problems is widespread - The Mediterranean Basin and particularly some if its sub-regions have a remarkable homogeneity of geophysical, climatological and ecological endowment which, in many instances, leads to similar environmental problems as well as to similar solutions which may be transferable among countries (see Annex 3). Although most solutions would be implemented on a parallel basis, there is a good argument for close collaboration;

(iv) Common political action is already underway - The countries of the Region clearly recognise the common nature of their environmental problems as well as the advantages of collective action. This is already reflected in the Barcelona Convention and four subsequent protocols signed by most countries. These call for protection of the Mediterranean environment by limiting dumping at sea, addressing pollution from land-based sources and establising protected areas. These agreements form an important anchor to environmental assistance programs to the countries of the Region;

(v) International agencies are anchored to a regional concept - The United Nations Environment Program (UNEP) has already embarked upon a series of region-wide iniatives including the Mediterranean Action Plan (MAP) which has provided the initial scientific and technical basis necessary for further international assistance efforts; and

(vi) the Mediterranean regional concept may be a powerful marketing and Public Relations tool. - Future assistance efforts will require finance, either for technical assistance or for capital investments in the environment. The regional approach is likely to be more attractive to potential contributors than individual country funding and may offer economies of scale to the Bank's efforts of mobilizing resources. A major environmental initiative, especially one which has European participation, provides an opportunity to achieve results visible to important supporters and critics alike.

Why involve the Bank?

9. The view has been expressed that the Bank is entering an area where it has limited expertise and in a region with an established U.N sponsored assistance program. A key question therefore is: what is the comparative advantage of the Bank in taking a lead role in an environmental program for the Mediterranean? The answers to this question are important for the Bank's corporate strategy as well as for achieving a necessary consensus on our role with a sensitive and wary external audience. We believe there are good arguments for the Bank to take a lead in the Mediterranean environment program for several reasons:

(i) The need for greater attention to economic and policy instruments as a means of improving environmental management has emerged as an important finding of the work to date. Inadequate attention to policies and institutions is responsible for much of the environmental degradation in the region today - this includes inadequate pricing policies, distorted incentive systems, poor regulatory enforcement, and sub-optimal economic and sector planning. There is, therefore, a need to move beyond the previous scientific and limited socio-economic analysis of the agencies involved to date, to an approach which addresses the linkages between economic development and environmental degradation. Although the integration of environmental concerns with economic and social policy remains a fairly new endeavor for the Bank, the Bank's expertise in economic and sectoral policy analysis and its experience in addressing politically sensitive economic issues puts it in a strong position to lead further phases of the EPM work. Furthermore, the Bank maintains an almost constant dialogue with governments of eight of the least developed Mediterranean countries.

(ii) Investment will also be required for a wide variety of environmental activities including water supply, sanitation, industrial pollution, urban services and energy infrastructure. The Bank, with its long experience in project management and co-financing, would have a comparative advantage in evaluating investment proposals and ensuring their implementation.

(iii) The Bank's skills complement the work of other active agencies such as UNEP which is primarily interested in scientific and technical investigation and EIB, largely a project financier. However, UNEP may continue to feel threatened by a larger agency such as the Bank and will therefore have to be treated with sensitivity. Maintaining good relations with UNEP goes beyond courtesy and complementarity of interests. UNEP is the most important actor in the environment field and their full endorsement is essential for the success of the Bank's own Mediterranean initiative.

(iv) The lack, to date, of effective action to improve the Mediterranean environment has been due in part to the focus of existing agencies on monitoring and improving the scientific base. While we would continue to support the efforts of these agencies, particularly UNEP, to enlarge the scientific base, the Bank is well placed to use scientific findings to develop workable integrated packages of policy reform and investments, and would be able, therefore, to integrate a broader range of environmental-related issues into a regional agenda than would the more specialized agencies already involved.

IV. THE AGENDA FOR INTERNATIONAL ACTION

10. During Phase II, the Bank would take the leadership in initiating and promoting broader international action. Phases II and III will have to be carefully designed to ensure that the key actors have meaningful and constructive roles and that the proposed activities of the Bank, EIB, UNEP and conceivably other agencies (eg. EEC, NGOs) are compatible. A politically sensitive issue likely to arise in any effort involving both Part One and Part Two countries is that of comparable and/or equal treatment.

International action initiated by the Bank would attempt to ensure the :

* Provision of intellectual leadership and advocacy;
* Sensitization of national policymakers to the consequences of environmental destruction as well as the underlying causes including population growth;
* Provision of a forum for coordination of all interested parties;
* Provision of advisory services to participating countries;
* Adoption of least-cost environmentally sound investment strategies;and
* Integration of environment into the mainstream of economic thinking and decisionmaking

How the work should be organised

11. The regional work plan could take a number of forms - all of which have been examined and debated during Phase I - ranging from a monolithic all-encompassing program requiring inter-country conditionalities and joint actions, to a loosely based arrangement with broad agreements under which the Bank would follow an independent path and simply integrate environmental concerns into the mainstream of operational work, i.e. no separate regional program would exist and a low-key approach would be adopted.

12. However given the rising expectations from the donor and recipient communities as well as from environmental groups, a degree of visibility would be necessary. Furthermore given the number of actors, all of whom have their own interests, it would be desirable to have some forum for cooperation. Thus, to promote better public relations, to ensure adequate coordination of efforts, to act as a catalyst for donor support and to be seen in a more pro-active posture some form of Bank supported and led " program" is both desirable and inescapable.

13. Our current thinking is that the Third Phase should include the following steps :

(a) A consultative group on the Mediterranean would be formed which would meet annually in a non-confrontational non-binding forum to exchange information, views and experiences, identify key issues of common interest, promote consistency of approach in dealing with environmental strategies and policies, and possibly establish broad paramaters of collaboration and cooperation. Invitees would include EIB, UNEP, UNDP, participating countries and possibly interested NGOs.The advantages of this approach to the Bank are :

- it provides a forum for enhanced public relations and visibility;

- it ensures diplomatic collaboration within a framework of common objectives while stopping short of requiring binding commitments or joint programming;and

- it allows for information sharing which may be of substantive value.

(b) A Technical Assistance Program would be developed and named the Mediterranean Environmental Technical Assistance Program (METAP) to strengthen national environmental efforts and promote inter-regional cooperation. METAP would focus upon :

- policy and regulatory advice;

- pre-feasibility and feasibility studies of environmental projects or project components for both Bank and non-Bank funded investments;

- environmental impact assessments of specific investments, plans and programs;

- training and information dissemination across countries; and

- support to scientific research and development.

A funding target of $15 million has been set for METAP. Support for METAP is likely from UNDP ($3 million over 3 years), and EIB (unspecified). In addition, EMENA plans to discuss possible contributions from the EEC, the African Development Bank and Japan. Work is currently proceeding on a detailed outline and modus operandi of the METAP, including better definition of tasks, guidelines on activities, etc. METAP funds would be used for both regional/sub-regional and national activities and may also be utilised to fund specific high priority activities of UNEP, EIB, selected NGOs and other specialised agencies working on the Mediterranean environment. The findings of Phase 1 have been substantively used to identify some 20 to 30 specific activities throughout the Basin. These range from specific feasibility studies on industrial pollution abatement and water supply and sanitation schemes to assistance in preparing national environmental regulations.

(c) **A Management Unit/Secretariat** is required to both manage the METAP and organise and manage the annual meeting of the Consultative Group. The unit will be located in the EMENA Environment Division and will be funded by a Special Grant ($520,000 for FY90, subject to Board approval) and from regular EMENA funds ($ 200,000 per annum) and would require two to three special higher level positions and two support level positions.

(d) **Bank Operations in EMENA** will continue to be reviewed to ensure that environmental aspects are adequately incorporated. However, a closer integration of the EPM with Bank operations and assistance is called for. METAP will provide opportunities for providing assistance in the early phases of loan preparation - moving from a reactive approach to a more pro-active approach in our environmental assistance. The integration of EPM activities into country assistance strategies will also be accelerated. Furthermore there are a number of lending activities, fully consistent with good environmental practices, that can be accelerated and implemented rapidly. We have begun the process of reorienting the present lending program, either through modifications such as the broadening of a regional water supply project in Turkey towards a more integrated environmental project, and the inclusion of new projects such as the Split-Kastela Bay Environment Project in Yugoslavia.

NEXT STEPS

14. The next steps are critical for completing Phase One, initiating Phase Two, and designing Phase Three :

(a) Complete the Main Report of the EPM - A draft suitable for senior management review will be circulated in September,1989 with a view to possibly preparing a high quality WDR style report by December, 1989. The UNEP sponsored Blue Plan will be published at about the same time and we may need to coordinate our efforts. A decision will shortly be needed as to whether a Board presentation is required to move ahead with the next phases or whether management endorsement alone is sufficient. A decision is also needed on the extent to which the findings of the EPM report should be disseminated at the Annual Meeting and, in particular, whether they should be reflected in the President's speech.

(b) **Strengthen our relations with UNEP** - This is critical to the effectiveness of the EPM. We are proposing that Mr. Thalwitz write to Dr. Tolba, executive Secretary of UNEP, possibly preceded by a letter from Mr. Hopper, summarizing the context, and offering to meet Dr. Tolba at the earliest opportunity. At such a meeting, agreement could be reached on a Memorandum of Understanding along the lines of a draft already proposed by Dr. Tolba, setting out a broad outline of future UNEP/Bank cooperation in the Mediterranean. We will also ensure that UNEP participates fully in the next phases of the EPM by being a full member of the METAP advisory group and also possibly through co-chairing the consultative group.

(c) **Ensure good relations with EIB** - We have enjoyed excellent relations with EIB in the preparation of the EPM. However, it is clear that EIB gives rather less weight to policy reform - an issue at the heart of the EPM recommendations - and rather greater weight to investment finance. The EPM will, however, allow considerable flexibility within a common set of objectives and cooperation should be possible even with slight differences in emphasis. Furthermore, with its connections to the European Community, EIB can provide political support to the work of the EPM. The process of periodic consultation in Washington and Luxembourg - at both the working and managerial levels - should ensure a continuing cooperative atmosphere.

(d) Prepare the Capital Investment Component of Phase Three - The implementation of policies and investments consistent with an environmentally sound strategy for the longer-term sustainable development of the Basin is at the heart of the EPM. However such efforts will require financing. The EPM effort will ultimately result in a reorientation of Bank resources towards environment, EIB has indicated support for increased lending to environmental projects in the Basin, and bilaterals are showing considerable interest. However for many countries of the Mediterranean the long-gestation nature of incremental investments in environmental protection and management are sharply contrasted with the crisis management requirements of stabilization, adjustment and debt repayment. Phase One did not address in a substantive manner the issue of how such investments might be funded although preliminary indications are that some incremental funds in the order of $ 2 billion over the next five years are likely to be required for the developing Mediterranean countries. We have not advanced our thinking on these matters beyond the identification of a number of funding options which might lead to a Mediterranean Environmental Fund. The funding options include : a new, multi-donor fund; a loose-knit funding arrangement; and a coordinated pledging system. Given the high indebtedness of many of these countries some consideration may also have to be given to identifying means of introducing some degree of concessionality.

ENVIRONMENTAL PROGRAM FOR THE MEDITERRANEAN (EPM)

List of Papers Completed

- Synthesis Report[/a]
- Tunisia: Environmental Review and Action Plan
- Algeria: Environmental Problems and Issues
- Turkey: Environmental Issues in an Urban Setting - The Case of Izmir
- EPM Working Paper Series

  No. 1 Natural Resources.[/a]

  No. 2 Industry and Energy.

  No. 3 Urban Pollution.

  No. 4 Maritime Sector.

  No. 5 Cultural Property.

  No. 6. Financing Mechanisms.

  No. 7 Financing Sewerage Projects.

  No. 8 Pollution Problems in the Mediterranean: Approaches and Priorities.

  No. 9 Turkey: Environmental Laws and Institutions.

  No. 10 Egypt: Environmental Laws and Institutions.

/a Not yet finalized.

THE COMMONALITY ISSUE EXPLORED

Common Problems and Solutions

Problems of a physical, biological or socio-economic nature which are shared by two or more nations in the region and require collective action.

Today	Future
Marine Pollution:	
Oil discharge and spills to marine environment. - Requires adherence to international agreement (MARPOL) Discharge of nutrient rich agricultural, urban, and industrial wastes causes eutrophication resulting in algae blooms, oxygen depletion, fish kills, and odors. - Requires improved fertilizer application practices and decreased subsidies. Urban and industrial pollutants require investments for proper treatment. Incentives need to be developed for industrial sources. Discharge of industrial pollutants, especially heavy metals. - Requires regulation, changes in industrial processes, disposal methods and monitoring.	Higher traffic will increase danger of spills, but pollution is likely to be reduced in future with increased compliance with international agreements. Eutrophication will become more widespread unless control measures are adopted. Concern will continue over accumulation of chemical pollutants.
Floating Debris:	
Floating plastic and other debris. - Requires compliance with regional agreements on maritime dumping and improved national solid waste management efforts.	Maritime dumping likely to be reduced. Increasing urbanization, especially in southern and eastern countries, will require large effort in solid waste management. Increased numbers of pleasure craft will add to the problem.
Endangered Species:	
Endangered marine mammal and turtle populations and areas of habitat being reduced. - Requires public awareness, regional habitat protection, and compliance with international agreements on endangered species.	Continuous pressure on habitats and animal populations due to coastal development, tourism, and marine transport.
Migratory Birds:	
Migratory birds, including endangered species, are under pressure from habitat destruction, especially in migration bottleneck areas, and due to unregulated hunting and trapping. - Requires compliance with international agreements on hunting, protected habitat and trade in endangered species.	Continued pressure on habitat from agriculture, urbanization and tourism. Possibility of some species disappearing.
Fisheries Depletion:	
Poorly controled fishing and destruction of habitat (esp. sea grass beds) resulting in depletion of many commercial fish stocks. Also some destruction from pollution. - Requires public awareness, regional habitat protection, compliance with international agreements on hunting, protected habitat and trade in endangered species.	Continued pressure on fish stocks due to increased demand. Situation will be complicated by continued reduction of fish habitat.

THE COMMONALITY ISSUE EXPLORED

Common Problems and Solutions

Problems of a physical, biological or socio-economic nature which are shared by two or more nations in the region and require collective action.

Today	Future
Air Pollution:	
Initial studies indicate transboundary air pollution, especially in northern Mediterranean, and forest death associated with acid rain. - Requires conservation, improved fuel selection, adoption of clean technologies in powerplants, air quality monitoring.	Increase in power generation, especially in southern and eastern countries with potential increase of air pollution. Implementation of ECE agreements should reduce transboundary pollution in northern countries. Pollution from automobile emmissions will be increasingly important source of transboundary air pollution.
Tourism Development:	
Tourism is a major growth industry, but international competitiveness makes taxation of the tourist industry for infrastructure costs and environmental improvement difficult. - Requires continued national and international efforts to assure that tourism development is planned and supports proper infrastructure and environmental protection.	Tourism will continue to expand, placing serious demands on local and regional infrastructure. Marine, natural and historic foundations of tourism will continue to be degraded unless new approaches to planning and financing tourism are adopted.
Regional Trade:	
Increasing regional trade is raising environmental issues relating to protection of livestock and plant species from the introduction of pests and diseases. Pesticide and pharmaceutical residues in export crops are an emerging concern. - Requires better crop and animal protection policies, reduction of inputs, and residue testing.	Regional trade in agricultural commodities may be constrained, especially between the southern and eastern countries and the EEC, without improved quarantine and residue testing.
Migration:	
Large numbers of people migrate within the region on a semi-permanent or seasonal basis. - Requires continued collective and national efforts to ensure sustainable long-term economic growth.	Migration pressure will increase, especially if environment and resource degradation threatens economic growth.

THE COMMONALITY ISSUE EXPLORED

Similar Problems and Solutions

Problems which occur individually in several countries of the region and may be addressed on a country basis but which have solutions which may be transferable given the countries' similar physical, biological social conditions and their common history.

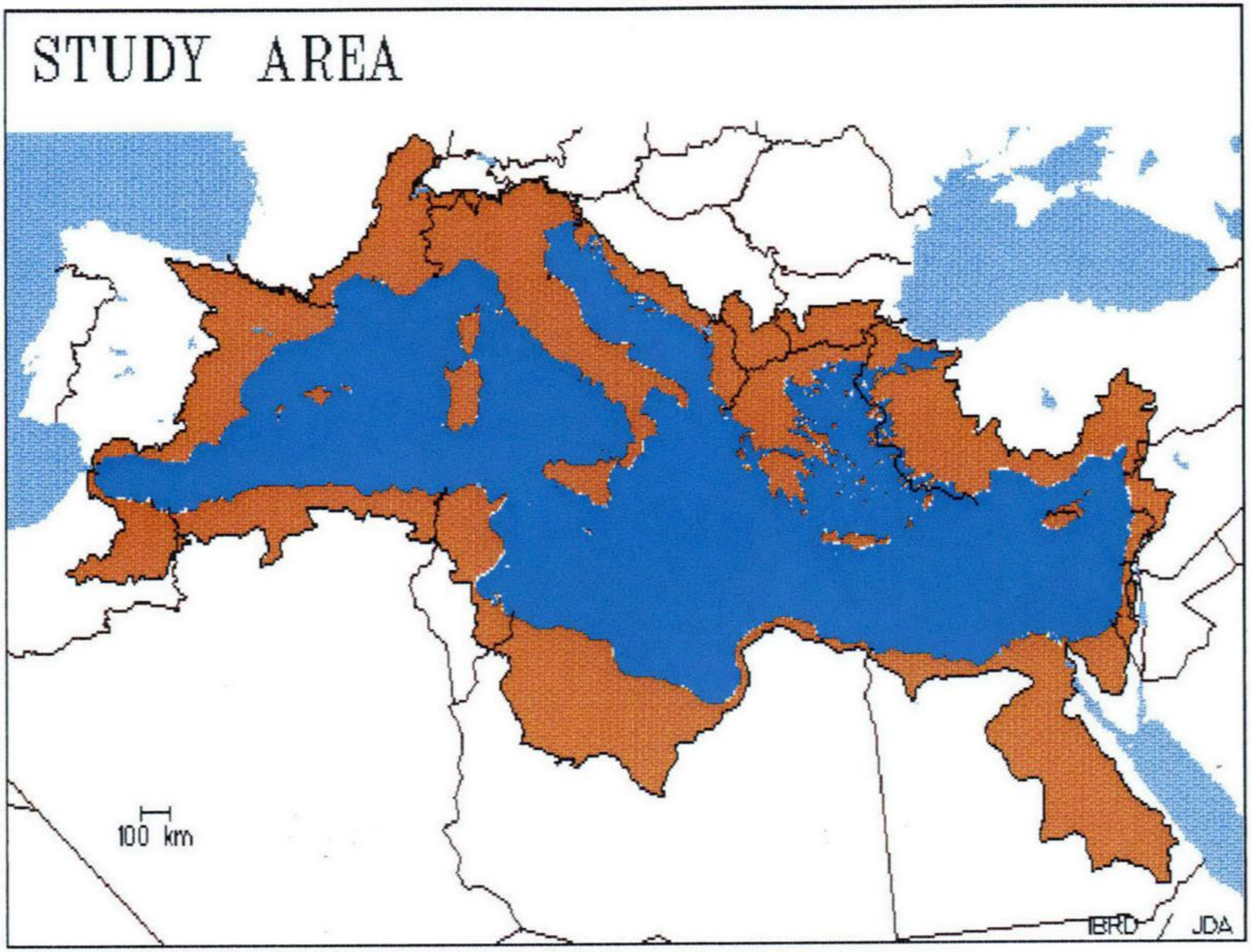
Today	Future
Coastal Pollution:	
In-shore pollution from urban and industrial sources. - Requires policy changes, economic incentives, development and enforcement of regulations, investments in rehabilitation and new treatment capacity. Improved operation and maintenance and environmental monitoring are also required.	Increased waste flows, especially in southern and eastern countries, increased demands on funds for recurrent costs and new investment. Adoption of clean technologies, particularly in the north, will alleviate problem. Aging of industry will complicate problem.
Water Quantity:	
Full development and local depletion of fresh water resources in most of the basin resulting in seasonal water scarcities and inadequate supplies to meet demand in some coastal and island areas. - Requires adoption of allocation and pricing policies, economic incentives for conservation and integrated approaches to management of surface and groundwater.	Will require difficult decisions between alternate uses to avoid serious scarcity. Wastewater reuse and water conserving technology will be required to increase returns to water. Expanded use of desalinization of salt and brackish water and other non-structural water augmentation methods.
Water Quality:	
Surface and groundwater are deteriorating in quality due to inadequately controlled discharges from urban, industrial and agricultural sources; situation complicated by multiple use of available water. - Requires analysis and regulation of pollutant sources, reduction in subsidies of agricultural inputs, incentives for industrial pollution control, monitoring.	With less water, there will be more pressure on quality (less dilution). This will require expensive second generation of wastewater management investments. Monitoring will become more important to assure water quality.
Coastal Zone Management:	
Many coastal areas, including beaches and wetlands are under pressure for intensified or new development. Much is unplanned with inadequate services. - Requires adoption of coastal zone management approaches and recognition of irreversability of many land use decisions	Increased development of current and new areas of the coastal zone without long-range planning policy;
Dry Land Degradation:	
Land resources are deteriorating in semi-arid and arid portions of the southern and eastern countries. This is the result of deforestation, overgrazing & agricultural development of marginal lands. It is resulting in a loss of fertility and erosion of drainage basins with impacts on irrigated agricultural and coastal areas. In its extreme form, it results in desertification. - Despite the importance of these lands, limited success has been achieved in improving their management. Significant effort should be made to understand the social and technical reasons for these phenomena and to design appropriate policy interventions for addressing the problems. Land tenure issues in drylands need special attention.	Continued deterrioration of these land resources will result in increased rural-urban and interregional migration. It will also result in damage to irrigation systems and reservoirs. There will be decreases in rain-fed agriculture and range productivity resulting in increased imports.

THE COMMONALITY ISSUE EXPLORED

Similar Problems and Solutions

Problems which occur individually in several countries of the region and may be addressed on a country basis but which have solutions which may be transferable given the countries' similar physical, biological social conditions and their common history.

Today	Future
Degradation of Cultural Properties:	
Cultural properties, including archeological & historic sites and traditional urban centers, are a major tourist resource and cultural heritage of the region. Direct damage or destruction is occuring to sites due to agricultural, urban and tourism development. Harm also results from air pollution and rising water tables.	Without steps to identify and conserve these sites, many, particularly unexplored and secondary sites of regional importance, may be lost to posterity. Conservation of historic urban centers will become a more important issue.
- Requires inventory and protection of sites, integration of historic preservation concerns into development planning, increased access fees and economic incentives for conservation.	
Solid/Hazardous/Toxic Waste:	
All countries in the region have serious problems of varying degrees in the collection treatment and disposal of wastes. Solid waste generation is increasing rapidly in urban and rural areas, often overwhelming local authorities' collection and disposal abilities. Hazardous and toxic waste, principally from industrial and agro-chemical sources, is frequently disposed of improperly, causing contamination of water supplies and posing direct health threats.	Increased urbanization will tax abilities to collect and find appropriate disposal sites. Increased costs of solid waste management should lead to greater recycling and waste reduction. Major expenditure is required to locate, stabilize and dispose of existing and future toxic and hazardous waste. Regulations and increased disposal costs should favor phasing out of old technologies and investment in new technologies.
- Requires recognition of the need for improved collection, disposal and incentives for recycling. Hazardous and toxic wastes require regulations, inventory, specialized disposal facilities, and incentives to promote low waste technology and biproduct recovery.	


STUDY AREA
100 km
IBRD / JDA

For June 2, 1989

Meeting with Mr. Prate, EIB

Talking Points

- express satisfaction at collaboration with EIB on Environmental Program for the Mediterranean (EPM). Bank has been placing special emphasis on environmental issues over the last two years and EPM is important aspect of this work;

- appreciate generous support of EPM activities and good working relationship throughout Phase I. Emphasize that you expect Phase I report to be concluded on time;

- assure that EPM is viewed by Bank as a powerful instrument to generate investment projects which could be financed by EIB and Bank. Bank experience has been that projects most effective when interaction of policy, institutions and investment projects is considered;

You may ask Mr. Prate:

- is he satisfied with the approach which has been adopted in the preparation of the Phase I report?

- what are the "North-South" implications of the EPM?

- how does he perceive the financing issues of EPM activities in both developed and developing countries? Would EIB consider financing of activities in southern rim?

- ask his advice and views on the joint approach (i.e. EIB and Bank) to other actors to be involved in EPM;

- what has been position and interest of European Community and EC countries on EPM activities?

- how does he perceive the evolution of the EPM within the EIB?

Closing:

- this is an important initiative both in terms of our institutions, and in terms of translating growing environmental concerns in concrete action programs;

- look forward to discussions of Phase I Report and to continuation of strong collaboration with EIB during next phases of EPM.

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

BARBER B. CONABLE
President

April 14, 1989

Dear Dr. Herrhausen:

I want to thank you for the special effort you made to come to Washington to participate in the Financial Markets Seminar hosted by The World Bank on March 31st.

Although individual meetings with Ministers preceding the Interim and Development Committees prevented me from being able to attend the luncheon and hear your remarks, all reports indicate that the Seminar was a success and your presentation was key to that success. We are most grateful to you for arranging your schedule so that you could participate on this program.

I was pleased that we had the opportunity to meet, since you were in Washington for such a short time, and look forward to other opportunities to continue our discussion.

Again, my personal thanks, and very best wishes.

Sincerely,

Barber Conable

Dr. Alfred Herrhausen
Chairman
Deutsche Bank
Taunusanlage 12
D-6000 Frankfurt am (Main) 1
Federal Republic of Germany

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: March 30, 1989

NAME	ROOM NO.
Mr. Conable	
(Through: Mr. Qureshi)	

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

REMARKS:

Attached is the briefing for Mr. Conable's meeting with Mr. Herrhausen.

FROM:	ROOM NO.:	EXTENSION:
David R. Bock	D-1212	72942

12:30

BRIEFING FOR MR. CONABLE

Meeting with Mr. Herrhausen
C.E.O., Deutsche Bank

In the light of the recent shift in U.S. approach to the debt strategy reflected in Secretary Brady's Bretton Woods Committee speech, we expect Mr. Herrhausen will like to focus the discussion with Mr. Conable on issues related to the appropriateness and viability of the new debt strategy and the role that the Bank will play in facilitating debt reduction.

Deutsche Bank is the largest bank in Germany. It is also one of the best provisioned banks--the current level of loan loss reserves is nearly 80% of total LDC exposure. We expect Deutsche Bank will be among the banks which would be relatively less opposed to debt reduction schemes. Indeed, we have informally received a draft of Mr. Herrhausen's speech--which may be subject to revision--to be delivered at the Capital Markets Seminar of the World Bank on March 31, 1989. Mr. Herrhausen is proposing a dual strategy --debt reduction through voluntary operations (exchange offers, debt/equity swaps, etc.) and debt service reduction through concessional interest rates which may gradually return to market levels as the debtor's performance improves. The interest capitalized during the initial years could be paid in local currency. A copy of the speech is attached.

In 1987, Mr. Herrhausen also put forward a proposal for creation of an Interest Compensatory Fund, to be managed by the IMF, which would extend protection against interest rate volatility to the highly indebted countries.

Mr. Herrhausen's biographic data and a brief statement on Deutsche Bank's LDC exposure and operating performance during 1987-88 are also attached.

Attachments

DFS
March 30, 1989

Attachment

Deutsche Bank's Operating Performance, 1987-88

After two exceptionally good years, operating results for 1987 returned to the more modest levels achieved in 1984. Operating profit fell by over 30%, primarily because of substantial securities losses incurred as a result of the world stock market collapse in October 1987. Despite this, Deutsche Bank looked strong in terms of profitability, capitalization and asset quality.

Total loan loss provisions for 1987 were significantly lower than during previous years. It is estimated that as of end-1987, Deutsche had reserved around DM 4 billion, equivalent to about 76% of its exposure in the so called "problem" countries. With a view to minimizing the currency exposure of its loan assets, the bank converted most of its problem country reserves from DM into US dollars.

At year end-1987, Deutsche Bank's exposure to 48 problem countries (end-1986: 36) was DM 5.3 billion (or 48% of consolidated equity), compared with DM 6 billion at the previous year-end. This reduction, in spite of the increase in the number of problem countries, was due to the continuing depreciation of the US dollar against the DM during the year, some sales of LDC debt, and debt-equity swaps to the extent of DM 424 million.

Deutsche Bank has not published its figures for 1988 yet, but 1988 has apparently been a "satisfactory" year for Deutsche, so we have been informed. Operating results for the first four months of 1988 were 30% above the 1987 level. The current level of loan loss reserves is about 80%. No substantial provisions were made in 1988.

Deutsche Bank bought 29 branches from Bank of America in Argentina. This was part of a strategic plan to expand in South America, where it sees substantial growth prospects, despite the debt crisis (according to Herrhausen). Deutsche has historically strong ties with Argentina and Chile. Deutsche has also expansion plans in Europe, where it wants to raise its profile in advance of 1992, and is showing a particular interest in the insurance business.

Deutsche Bank comfortably exceeds the minimum risk-adjusted capital guidelines proposed by the BIS.

Dr. Alfred Herrhausen

Dr. Alfred Herrhausen was born on January 30, 1930 Essen. He studied Business Administration at the University of Cologne. He graduated as Diplom-Kaufmann in 1952 an three years later gained the degree of Dr. rer. pol.

His career began in industry, in the energy supply sector. In 1952, he became Assistant to the Management at the Head Office of Ruhrgas AG in Essen. In 1955 he then moved to Vereinigte Elektrizitätswerke Westfalen AG (VEW), Dortmund. During this time he also had an opportunity to gather foreign experience in banking as loan specialist and financial analyst at the Empire Trust Company in New York.

He played an important role in the preparation and execution of the partial privatization of VEW in 1966. A year later he was appointed Member of the Board of Managing Directors of VEW, with responsibility for finance.

With effect from January 1, 1970, Dr. Herrhausen was appointed Deputy Member of the Board of Managing Directors of Deutsche Bank AG; in 1971 he became full member.

His field of responsibility covered the bank's international business (North and South America, Australia and New Zealand, South Africa), foreign trade finance and economic questions, as well as the Essen branch region. At the end of 1974 he was nominated by the Federal Minister of Finance to join the Research Commission on "Basic Questions of Banking" (Banking Structure Commission), the assignment of which was to examine the structure of German banking and to make suggestions for improving the banking sector. The Banking Act amendment implemented since then was based largely on the Commission's work.

In 1983, Dr. Herrhausen was appointed as a neutral advisor, together with two other "Steel Moderators", to devise a strategy for the reorganization of the German steel industry.

Since May 1985 he has been Spokesman of the Board of Managing Directors of Deutsche Bank, having been elected to this office by his colleagues on the Board. He exercised this function together with Dr. F. Wilhelm Christians until the latter retired in May 1988. The two Spokesmen were jointly responsible for the business policy management of Deutsche Bank's worldwide Group operations.

Since May 11, 1988 Dr. Herrhausen has been sole Spokesman of the Board of Managing Directors of Deutsche Bank.

8/88

A Dual Strategy: Debt Reduction and Debt Service Reduction for LDCs
Luncheon Address by Dr. Alfred Herrhausen, Spokesman of the Board of Managing Directors of Deutsche Bank AG, at the Capital Markets Seminar of the World Bank on March 31, 1989 in Washington, D.C.

Mr. Conable,
Ladies and Gentlemen:

I very much welcome today's opportunity of addressing this distinguished audience, all the more so, as an invitation to air some ideas on the necessary future orientation of international debt management at the Capital Markets Seminar of the World Bank no longer implies the risk of having to advocate a "heretical" minority position.

You may recall, it was in this very city that, 1 1/2 years ago, I first mooted the idea of duly conditioned case-by-case debt relief - a somewhat startling proposition at the time. But today, just three weeks after Treasury Secretary Mr. Brady announced new thinking to render the LDC debt strategy more realistic - i.e. debt reduction and debt service reduction -, I no longer feel quite so isolated, even though I am fully aware that Secretary Brady has by no means simply endorsed my original theses.

To put things into perspective and before outlining a specific proposal, let me just recapitulate what I called the "seven basic insights" and which I presented last fall in Berlin:

Insight No. 1:

The problem of the debtor nations has changed at an alarming rate from a liquidity problem to a solvency problem; the better approach to solving such a problem is not debt increase, but debt r e l i e f.

Debt service requires the allocation of scarce resources for purposes which do not generate new income, insofar as loans - representing additional debt - are taken up to finance interest payments at the banks' end and to cover balance of payments or budget gaps at the LDCs' end. Such borrowing leads to a rise in the exposure of the banks involved to troubled debtors and the necessary loan loss provisions then erode their earnings, all the more since margins on such lending are depressed.

Insight No. 2:

New loans to meet interest obligations create neither new national income for the debtors, nor new income for the creditors.

The question I have been asking myself here is whether, by pursuing such a strategy, we are not actually deepening the crisis, or at least prolonging it. There is disquieting evidence that this is the case: the ratio between external debt and exports for the "Baker 15" rose from 270 in 1982, the year the crisis broke, to 330 in 1987. 1988, too, did not see substantial improvement, the relevant figure being 310. In 1982 LDCs' interest obligations accounted for roughly 30 % of their export revenues. The position is still unchanged today, by and large (1988: 26 %), in spite of drastically lower interest rates and margins.

From this we can deduce

Insight No. 3:

Under the prevailing circumstances, the two alternative strategies which the debtor countries are pursuing to improve their debt service capacity actually militate against each other: if they want to meet their obligations as borrowers punctually, they have to shift scarce resources away from growth strategies; if they want to expand, they have to take these resources away from debt service. There is concrete evidence of such incompatability, too:

For example, the unavoidable currency devaluations, intended to boost exports, lead to imported inflation and then a heavier domestic interest bill produces growing budget deficits. These, in turn, lead to fresh bouts of inflation and to the need for import restrictions. It is significant that the improvement in the trade figures of the "Baker 15" from 1982 onwards was due largely to import restrictions, for in 1988 the exports of these countries were not substantially higher than in 1982. Such a pattern, however, means a loss of much needed growth. This is reinforced by unavoidable budget adjustments, which, if debt is to be serviced, can only be effected at the expense of government expenditure which does not relate to debt service. Furthermore, combating inflation means high real interest rates with corresponding negative repercussions on growth.

In this connection, the question which persists in my mind is: are we not in a "vicious circle", in which external and internal confidence in the debtor countries must evaporate? Is this perhaps the reason behind the familiar phenomena of capital flight, political instability, social unrest, radicalization of all kinds which are so symptomatic of the debt trap?

Insight No. 4:

All this is accurately reflected by the markets, those delicate seismographs of economic and political tectonics: despite - or because of? - the now six-year-old offical debt strategies, the discounts on LDC debt have become heftier and heftier. Apparently, however, even the most orthodox proponents of the therapies adopted to date are not fully convinced of their merits, because otherwise, motivated by a healthy desire for gain, they should now be busy acquiring cut-price LDC debt. Just the opposite has happened. Market operators have striven to contain and minimize their losses and a generally pessimistic assessment of the debt scene effectively rules out any moves aimed at maximizing profits.

Insight No. 5:

In this context, it is important to note that when LDC debt is sold in the market place at a discount, this does not necessarily mean a genuine reduction in debt for the borrower. Bank losses incurred in such deals are not automatically translated into debtor gains. So, we really have a situation in which both victims of the debt crisis - i.e. borrowers and lenders alike - are on the losing side. Even the spectacular Mexico-transaction of last year failed to benefit the borrower to the anticipated extent.

Insight No. 6:

Obviously, a more sophisticated debt strategy is called for. It must be taken into account that never in history has an insolvency problem - be it that of a country or of a firm - been solved by simply increasing the causes and consequences of insolvency, that is by increasing the debt overhang.

Naturally, we cannot waive the request that debtors help themselves. If they cannot put their houses in order, we would only be shoveling good money after bad, thus creating a situation in which a feasible composition ends up as a full-blown bankruptcy. But, the question which I have been asking myself for some time now in this context is this: will they, indeed, be able to help themselves without our help? "Help towards self-help" is, I think, necessary. And this help should - naturally and quite definitely on a case-by-case basis - not exclude a measure of "debt relief" in the light of the diagnosis which I have tried to elucidate.

I am not of the opinion that such an approach must lead to a permanent deterioration in the creditworthiness of debtor countries. On the contrary: if such a course brings about economic reforms and restores growth, price stability, investment activity and confidence, then creditworthiness - now non-existent - will return as well.

Insight No. 7 follows from this:

Politics, of course, will decide on the success or failure of "debt relief", too. Help can come from outside - reforms can only come from inside: in many important debtor countries, there is no way round fundamental reforms and stabilization measures in view of an intolerable level of inflation, interventionism, dirigisme plus unstable politics and ultimately, also a failure on the part of the countries themselves to, at least, acknowledge their own responsibility. Nevertheless: there is a crying need for constructive cooperation between all parties involved. For the countries concerned, there is certainly more at stake than capital and interest. <u>Their whole political destiny is at stake</u>. And that is why, in the light of world economic and world political developments, the "moral hazard of debt relief" could possibly soon become less of a hazard than the "moral hazard of no debt relief".

To sum up: on balance LDCs need less debt and less debt service obligations, this is to be achieved by tailor-made combinations of debt- and debt service reductions.

Just to clarify: that does not rule out any new flows which, without a doubt, troubled LDCs will still need. However, on the banks' side such new flows should no longer stem from concerted fresh money action. Quite a different matter are cofinancings, project and trade-related loans, all of which belong to the sphere of classical banking.

Let me now, first of all, briefly touch upon debt reduction before presenting concrete propositions on how debt service reduction could work:

- For any schemes which envisage a non-voluntary or "concerted", more or less general debt cut, no consensus is likely to be found. There is no real need for such a dramatic step, since a large number of debtor countries are already benefitting from reschedulings involving long tenors and grace periods. In addition, such countries' vital trade facility lines could be jeopardized by a generally enforced debt reduction.

- Debt reduction, as I see it, is best achieved by "menu instruments" like exit- or conversion bonds, debt equity swaps, debt buybacks etc. However, whilst acknowledging the positive impact of such instruments we must not loose sight of the fact that debt reduction on a large scale would be necessary if the net transfer of resources is to be reduced to any meaningful extent: there is no getting away from the fact that interest payments are the main burden so often deplored by LDCs.

That is why a dual strategy is called for, with debt service reduction playing the central role - supported and complemented by voluntary debt reductions.

Based on my seven insights and taking into account my foregoing considerations on debt reduction, I would like to outline a scheme which could be instrumental in bringing about a large measure of debt service reduction:

- Performing and cooperative debtors with serious debt overhangs should be granted temporary caps on their payments of interest on the old stock of debt. (For obvious reasons, interest on new money, other new loans, trade and interbank should be kept sacrosanct.) At this point I ask you to consider what I might call a "sliding interest scale": that is a sequence of interest rates starting, for example, with a maximum interest base rate of 4 % p.a. plus a margin to be negotiated for - say - two, three or more years and then moving gradually towards market rates as the countries' capability for full service, hopefully, improves as a result of measures taken.

- The difference between such concessional rates and the respective market rates could initially be capitalised. And: capitalised amounts could later become the subject of concessions on margin and base rate. Even the capitalised amounts themselves might qualify at some point for concessional arrangements. There should be "ex ante-transparency" for debtors with regard to the "concession schedule", in order to establish visible incentives and rewards for a policy with genuine and measurable results. Such results are so urgently needed in the field of structural reform - especially in the public sector. Substantial cuts in state intervention and budget deficits, the opening of the economy, increased domestic savings, reflows of flight capital and incentives for new flows of foreign direct investment are high up on the agenda.

- Interest capitalized could - furthermore - be complemented by "compensation payments" in local currency: for example, debtor countries could issue local currency bonds, the proceeds of which would be available to banks or their corporate clients for investments in the debtor country. Such amounts could then be set off against capitalised interest, thus leading to an effective reduction.

- A further important aspect is that conditionality obviously can be brought to bear in a much more efficient way within a phased series of concessions geared to debt service reductions by means of interest rate cuts. By contrast, instant and outright debt reduction leaves little scope to enforce adjustment policies in debtor countries.

What about the inducements for international banks to support a model such as that just outlined?

Firstly, any further concerted new money exercises in the traditional mould would at least become rarer and might even cease altogether as time goes on.

Secondly, such a scheme represents an essential and long-term framework for the eventual solution of the debt crisis: the present uncertainties as to debt management could be dispelled, with positive effects, hopefully, on pricing in the secondary loan market. Moreover, reduced uncertainty could bring about more confidence on the part of domestic and foreign investors. Increasing domestic savings, repatriation of flight capital and new direct investment by foreigners are the essential ingredients in the recipe for healthier economies in the problem countries of today; they have to strengthen their private sectors - which are the natural partners of private international banks.

Last but not least, the relief provided by the "sliding interest scale"-model would be a visible contribution by the international banking community towards more political stabilisation especially in young and emergent Latin-American democracies.

That brings me to another important aspect of the international debt situation: the political dimension of the debt problem is so overriding - as with disarmament or rescuing the Ozone Belt - that an international debt conference is called for. Such a forum should not only involve the IMF, the World Bank, the creditor governments and leading banks but also the debtor nations, represented by both their private and public sectors. Even important representatives of the political opposition might attend the conference.

Such an international debt conference would have as its aim, at least to promote consultation and progress with regard to major issues confronting the world economy. Possible themes would be:

- Debtor countries must be encouraged to consistently follow sound and reasonable economic policies.

- Important prerequisites for debtor countries' confidence in the success of a painful adjustment policy are anti-protectionism measures by creditor countries and - this refers mainly to the US - disciplined budget policies - given that large scale deficits can have fatal repercussions on the international financial markets and debtor countries' borrowing costs.

- Given that the regulatory and tax environments for banks in a number of creditor countries differ widely, this does not facilitate the translation into reality of the proposals I have presented. If the international banking community is to play a constructive role in helping to rescue debt-ridden countries from their woes, then strenuous efforts will have to be undertaken in order to harmonize and align regulatory and tax environments. In addition to the work of the Basle Committee on Banking Regulations and Supervisory Practices, the international debt conference could provide impulses to bring about the practical implementation of all those remedial strategies now widely recognized in principle as desirable.

To be frank on the subject of harmonization: For a long time debtor countries and a majority of international banks have waited for a move by Washington to modify the regulatory and tax constraints on US-banks in such a manner as to enable them to take a more active part in making concessions on interest rates. Similarly Japanese banks, the most important national group of creditor banks after the US, are disadvantaged, especially with regard to loan loss provisions. Within the context of the international debt problem it should be a high priority-task for major OECD-governments to create conditions within which international banks reach enhanced scope for manoeuvre. If there is more cohesion between international banks, this will be beneficial to engineering workable solutions to the debt problem.

In closing I would emphasize, that banks are ready and willing to play an active role in defusing the debt problem. They would welcome nothing more than an orderly return to "business as usual" mainly with private partners in today's problem countries. Such a "financial new age" however, presupposes a framework which will have to be pulled together primarily by politicians. In the transitional period, the vision, guidance, expertise and financial means of the Bretton Woods institutions and their member governments are and will remain indispensable.

It depends upon the quality of international cooperation, to what extent and how soon debtor countries will enjoy the benefit of debt relief. All protagonists in the complex drama of international debt have to deliver. As I see it, the most effective help banks can offer is a dual strategy of debt reduction and debt <u>service</u> reduction.

Frankfurt, March 22, 1989
ZIA - WN/Vt/FAP/Lud/he (3649)

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 17, 1989

TO Mr. Barber B. Conable, EXC

FROM Jean Baneth, IECDR

EXTENSION 33800

SUBJECT Mr. Herrhausen's visit

1. In each of the past several years IEC and its predecessor EPD, have organized a seminar on Financial Markets for the Chief Economists and senior executives of commercial banks. The purpose of the seminar is to have an informal exchange of views on global economic and financial issues as well as some select country prospects. Participants also include selected Bank staff, a representative each from the IMF and the BIS, the head of the International Institute of Finance, and the bankers themselves.

2. On this occasion we invite a distinguished person from the international financial community to be the keynote luncheon speaker. Last year, the guest speaker was Mr. Robert Heller, Governor of the Federal Reserve.

3. Dr. Alfred Herrhausen is Chairman of Deutsche Bank, which has been an active participant in this seminar right from the beginning. It was in recognition of their support and of Dr. Alfred Herrhausen's personal role in the debate on Third World debt that we had requested you to invite him to be the keynote speaker. He has accepted your invitation and will be meeting you on March 31 at 12.30 pm. He will then address the seminar participants at the luncheon. We expect Dr. Herrhausen will share his current thinking on the approach to resolve the commercial bank debt to Highly Indebted Countries.

4. Deutsche Bank is Germany's largest and most influential bank (assets of $169 billion at year-end 1987 and ranking 11 largest in the world). Like other board members of the Deutsche Bank, Dr. Herrhausen sits on the supervisory boards of several major German industrial companies, through which positions he exerts a strong influence on the German economic sector. Under Dr. Herrhausen's leadership, Deutsche Bank has developed a global strategy of securing market share in its capacity as a universal bank (i.e. engaging in both commercial and investment banking); this strategy has been pursued primarily throughout Europe and only secondarily in the United States and in Japan where Glass-Steagall restrictions apply and more intense competition appears to prevail. Already Deutsche has acquired banks in Italy and Portugal as well as a major stake in a Spanish bank.

5. In terms of the World Bank's funding operations, the Deutsche Bank has developed into our single most important institutional

P 1866

relationship. Deutsche has been a regular lead-manager of our publicly offered bond issues denominated in Deutsche Mark since 1959, as well as Eurodollars (with a few exceptions) since 1981. Last summer, we concluded with Deutsche an agreement for a swap insurance facility in Europe. Our most recent transactions led by Deutsche were a Spanish peseta issue launched in February 1989, a Eurodollar issue launched in January 1989 and a DEM public issue launched in September 1988 and signed during the Annual Meetings in Berlin.

6. Dr. Herrhausen is making this trip for the sole purpose of being our guest speaker. He will attend a Board meeting in Frankfurt that morning, and then fly to Washington via New York (by Concorde), and go back after the speech. We would be most grateful if you could personally thank him for making such an effort.

7. A list of outside participants at the seminar and of those invited to attend the luncheon is attached. I am also attaching the International Who's Who notice on Dr. Herrhausen, and a copy of the Institutional Investor containing an article on him.

8. Mr. Karsenti from FOD and I will be present at your meeting. In case my duties as host at the luncheon do not permit me to do so, Ishrat Husain, Chief, Debt and International Finance Division will replace me.

Att.

c.c. Messrs. Hopper, Stern, Roth, Eccles, Karsenti, Lay, Ishrat Husain
Mmes. Einhorn, Folkerts-Landau, Mashayekhi, Uy

JBaneth/EFolkerts-Landau/kg

International Who's Who: pg. 651

Herrhausen, Alfred, Dr. RER, POL; German banker; b. 30 Jan. 1930; Diplom-Kaufmann; mem. Man. Bd., Deutsche Bank AG (Jt. Spokesman 1985-88; Spokesman 1988-); Chair. Supervisory Bd., Bergmann-Elektrizitats-Werke AG, Berlin, Continental Gummi-Werke AG, Hanover, Daimler-Benz AG, Stuttgart, Deutsche Texaco AG, Hamburg; Vice-Chair, Supervisory Bd., AKZO N.V., Arnheim, F.M. Hammerle Textilwerke AG Dornbirn, Austria; mem. Supervisory Bd., Allianz Lebensversicherungs AG. Stuttgart, Vereinigte Elektrizitats-Werke Westfalen AG, Dortmund F.M. Hammerle Textilwerke, AG, Dornbirn, Austria; mem. Bd. European Banks' Int. Co. S.A. (EBIC), Brussels; mem. Bd. of Dirs. European-American Bancorp, New York, Xerox Corpn., Stamford, Conn..,U.S.A. Address: Deutsche Bank AG, Taunusanlage 12, 6000 Frankfurt am, Federal Republic of Germany.

FINANCIAL MARKETS SEMINAR
March 30-31, 1989

AS OF 3/17/89

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON, MARCH 30-31, 1989	CONFIRMED
BISCHOFBERGER	ALOIS	CREDIT SUISSE, ZURICH	X
BRAINARD	LAWRENCE	BANKERS TRUST, NEW YORK	X
CERRITELLI	JOSE	BANK OF AMERICA, SAN FRANCISCO	X
FOLEY	PATRICK	LLOYDS BANK, LONDON	X
GERAGHTY	PETER	NMB, NEW YORK	X
GENDREAU	PAUL	J.P. MORGAN, NEW YORK	X
LARKUM	CHARLES	JAMES CAPEL & CO., LONDON	X
NEUHAUS	WALTER	DEUTSCHE BANK, FRANKFURT	X
O'BRIEN	RICHARD	AMEXBANK, LONDON	X
SCHULMAN	HORST	INSTITUTE OF INTERNATIONAL FINANCE, WASHINGTON, D.C.	X
SHOBU	HOSHITOSHI	IBJ, JAPAN	X
SURATGAR	DAVID	MORGAN GRENFEL, LONDON	X
SAKUMA	USHIO	BANK OF TOKYO, JAPAN	X
TANABE	MASAO	JAPAN CENTER FOR INTERNATIONAL FINANCE (JCIF)	X

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AS OF 3/17/89

FINANCIAL MARKETS SEMINAR - MARCH 30-31, 1989

LIST OF WORLD BANK, IFC AND IMF STAFF ATTENDING LUNCHEON - MARCH 31, 1989

EXECUTIVE DIRECTORS

			LUNCH YES:	NO
Boehmer	Gerhard	EDS05	x	
von Harpe	Michael	EDS05	x	

SENIOR VICE PRESIDENTS

			LUNCH YES:	NO
Hopper	W. David	SVPPR	x	
Qureshi	Moeen	SVPOP	speech only	
Ryrie	William	CEXVP	x	
Wapenhans	Willi	SVPEA	x	

VICE PRESIDENTS

			LUNCH YES:	NO
FISCHER	STANLEY	VPDEC	X	
HUSAIN	SHAHID S.	LACVP	x	
INAKAGE	KUNIHIKO	COFVP	x	
JAYCOX	E.	AEVP	x	
KARAOSMANOGLU	ATTILA	ASIVP	x	
RAJAGOPALAN	VISVANATHAN	VPPRE	x	
THAHANE	TIMOTHY	SECGE	x	

DIRECTORS

			LUNCH YES:	NO
AGUIRRE-SACASA	FRANCISCO	EXIDR	x	
BANETH	JEAN	IECDR	x	
BOCK	DAVID	DFS	x	
BURKI	S.J.	AS	x	
CHOKSI	ARMEANE	LADR	x	
HOLSEN	JOHN	CEC	x	
LOH	PING-CHEUNG	LA3DR	x	
RAO	D.C.	FRS	x	
SHAKOW	ALEXANDER	SPRDR	x	
STECKHAN	RAINER	LA2DR	x	

FINANCIAL MARKETS SEMINAR - MARCH 30-31, 1989

LIST OF WORLD BANK, IFC AND IMF STAFF ATTENDING LUNCHEON -MARCH 31, 1989

OTHER BANK STAFF

			LUNCH YES:	NO
ALLEN	MARK	IMF	X	
ECCLES	STEVE		X	
HAUG	MARIANNE	EXC	X	
HUSAIN	ISHRAT	IECDI	X	
JOHNSON	JOHN	LA2CO	X	
JUNZ	HELEN	ETR/IMF	X	
LEVY	PAUL	LA4CO	X	
MCCARTHY	DESMOND	IECAP	X	
MYERS	ROBERT	EM4CO	X	
O'BRIEN	STEPHEN	AFRVP	X	
OPPER	BARBARA	FRS	X	
PFEFFERMANN	GUY	IFC	X	
SALOP	JOANNE	AF4CO	X	
STEER	ANDREW	FRS	X	
TYLER	WILLIAM	LA4CO	X	
UNDERWOOD	JOHN	IECDI	X	
VERSLUYSEN	EUGENE	IECDI	X	
YENAL	OKTAY	AS1	X	
YURAVLIVKAR	DAVID	LA2CO	X	

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON - 3-31, 1989	CONFIRMED/	PENDING/	REFUSAL/
APOTEKER	THIERRY	BANQUE INDOSUEZ, PARIS			X
BERNARD	RAIMAR	COMMERZBANK, WEST GERMANY			X
BISCHOFBERGER	ALOIS	CREDIT SUISSE, ZURICH	X		
BOUTISSOU	SERGE	CREDIT LYONNAIS, PARIS			X
BRAINARD	LAWRENCE	BANKERS TRUST, NEW YORK	X		
DEALTRY		BIS			X
DESJARDINS	B.	CREDIT LYONNAIS.			X
DEVELLE		BANQUE PARIBAS			X
FOLEY	PATRICK	LLOYDS BANK, LONDON	X		
GERAGHTY	PETER	NMB, NEW YORK	X		
GENDREAU	PAUL	J.P. MORGAN, NEW YORK	x		
HILTON	DAVID	BANK OF NOVA SCOTIA		X	
HENLEY	THOMAS	SALOMON BROS. NEW YORK		X	
KUCZYNSKI	PEDRO-PABLO	FIRST BOSTON INT., NEW YORK			X
LARKUM	CHARLES	JAMES CAPEL & CO., LONDON	x		
LOMAX	DAVID	NATIONAL WESTMINSTER (LONDON)			X
CERETTILI	JOSE	BOFA	X		
MURPHY		CHASE MANHATTAN			X
NASHASHIBI	HIKMAT	ARAB BANKERS ASSO., LONDON			X
NEUHAUS	WALTER	DEUTSCHE BANK, FRANKFURT	X		
O'BRIEN	RICHARD	AMEXBANK, LONDON	X		
RHODES	WILLIAM	CITIBANK, N.A., NEW YORK		X	
SCHULMAN	HORST	INSTITUTE OF INTERNATIONAL FINANCE	X		

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON - 3-31, 1989	CONFIRMED/	PENDING/	REFUSAL/
SHOBU	HOSHITOSHI	IBJ, JAPAN	X		
SURATSAR	DAVID	MORGAN GRENFEL, LONDON	X		
SAKUMA	USHIO	BANK OF TOKYO, JAPAN	X		
TANABE	MASAO	JAPAN CENTER FOR INTERNATIONAL FINANCE (JCIF)	X		

FINANCIAL MARKETS SEMINAR
MARCH 30-31, 1989
ROOM E-1244

PROGRAM

THURSDAY, MARCH 30

Capital Market Developments

MORNING

9:30	Opening remarks and Introduction Mr. Jean Baneth, Director, International Economics Department
10:00	Global Economic Outlook Mr. Desmond McCarthy, Principal Economist, IECAP International Economics Department
10:30	Discussion
10:45	Coffee
11:00	The Brady Initiative: an Assessment Mr. Richard O'Brien Chief Economist American Express Bank, London
11:30	Commercial Bank Lending to Developing Countries Mr. Jose Cerritelli Head of the Latin American Section Bank of America, San Francisco
12:00	Discussion
12:45	Lunch

CONTINUATION, Thursday Session

AFTERNOON

2:30 Capital Adequacy Guidelines: Implications for Highly Indebted Countries.
Mr. Horst Schulmann, Chairman
Institute for International Finance, Washington, D.C.

3:00 Discussion

3:30 Coffee

3:45 Financial Liberalization in Europe 1992 and its Implications for the Developing World.

Dr. Walter Neuhaus, First Vice President
Deutsche Bank, A.G., Frankfurt

4:15 Discussion

4:45 Secondary Market Prices for D6veloping Country Debt and its Impact on Lending.
Mr. Peter Geraghty
Senior Vice President
Nederlandsche Middenstands Bank (NMB), New York

5:15 Discussion

5:45 Closing Remarks
Mr. Jean Baneth

FRIDAY, MARCH 31

Individual Country Reviews

MORNING

9:30	ARGENTINA Mr. William Tyler, Lead Economist, LA4CO
10:00	Discussion
10:20	Coffee
10:45	YUGOSLAVIA Mr. Robert Myers, Principal Economist, EM4CO
11:15	Discussion
11:35	CHILE Mr. Paul Levy, Principal Economist, LA4CO
12:00	Discussion
12:45	Lunch

AFTERNOON

2:30	MEXICO Mr. John Johnson, Principal Economist, LA2CO
3:00	Discussion
3:15	NIGERIA Ms. Joanne Salop, Principal Economist, AF4
3:45	Discussion
4:00	Coffee
4:15	COSTA RICA Mr. David Yuravlivker, Country Economist, LA2CO
4:45	Discussion
5:00	Closing Remarks

3/31
12:30 pm

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/03/17 DUE DATE : 00/00/00
LOG NUMBER : 890317022 FROM : Jean Baneth
SUBJECT : BRIEFING: Meeting with Dr. Alfred Herrhausen, Chairman of Deutsche Bank, on Friday March 31 at 12:30 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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

COMMENTS :cc: Mrs. Haug, JV (follow file)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 17, 1989

TO Mr. Barber B. Conable, EXC

FROM Jean Baneth, IECDR

EXTENSION 33800

SUBJECT Mr. Herrhausen's visit

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2. On this occasion we invite a distinguished person from the international financial community to be the keynote luncheon speaker. Last year, the guest speaker was Mr. Robert Heller, Governor of the Federal Reserve.

3. Dr. Alfred Herrhausen is Chairman of Deutsche Bank, which has been an active participant in this seminar right from the beginning. It was in recognition of their support and of Dr. Alfred Herrhausen's personal role in the debate on Third World debt that we had requested you to invite him to be the keynote speaker. He has accepted your invitation and will be meeting you on March 31 at 12.30 pm. He will then address the seminar participants at the luncheon. We expect Dr. Herrhausen will share his current thinking on the approach to resolve the commercial bank debt to Highly Indebted Countries.

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7. A list of outside participants at the seminar and of those invited to attend the luncheon is attached. I am also attaching the International Who's Who notice on Dr. Herrhausen, and a copy of the Institutional Investor containing an article on him.

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Att.

c.c. Messrs. Hopper, Stern, Roth, Eccles, Karsenti, Lay, Ishrat Husain
Mmes. Einhorn, Folkerts-Landau, Mashayekhi, Uy

JBaneth/EFolkerts-Landau/kg

International Who's Who: pg. 651

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FINANCIAL MARKETS SEMINAR
March 30-31, 1989

AS OF 3/17/89

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON, MARCH 30-31, 1989	CONFIRMED
BISCHOFBERGER	ALOIS	CREDIT SUISSE, ZURICH	X
BRAINARD	LAWRENCE	BANKERS TRUST, NEW YORK	X
CERETTILI	JOSE	BANK OF AMERICA, SAN FRANCISCO	X
FOLEY	PATRICK	LLOYDS BANK, LONDON	X
GERAGHTY	PETER	NMB, NEW YORK	X
GENDREAU	PAUL	J.P. MORGAN, NEW YORK	X
LARKUM	CHARLES	JAMES CAPEL & CO., LONDON	X
NEUHAUS	WALTER	DEUTSCHE BANK, FRANKFURT	X
O'BRIEN	RICHARD	AMEXBANK, LONDON	X
SCHULMAN	HORST	INSTITUTE OF INTERNATIONAL FINANCE, WASHINGTON, D.C.	X
SHOBU	HOSHITOSHI	IBJ, JAPAN	X
SURATGAR	DAVID	MORGAN GRENFEL, LONDON	X
SAKUMA	USHIO	BANK OF TOKYO, JAPAN	X
TANABE	MASAO	JAPAN CENTER FOR INTERNATIONAL FINANCE (JCIF)	X

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FINANCIAL MARKETS SEMINAR - MARCH 30-31, 1989

AS OF 3/17/89

LIST OF WORLD BANK, IFC AND IMF STAFF ATTENDING LUNCHEON - MARCH 31, 1989

			LUNCH YES:	NO
EXECUTIVE DIRECTORS				
Boehmer	Gerhard	EDS05	x	
von Harpe	Michael	EDS05	x	
SENIOR VICE PRESIDENTS				
Hopper	W. David	SVPPR	x	
Qureshi	Moeen	SVPOP	speech only	
Ryrie	William	CEXVP	x	
Wapenhans	Willi	SVPEA	x	
VICE PRESIDENTS				
FISCHER	STANLEY	VPDEC	X	
HUSAIN	SHAHID S.	LACVP	x	
INAKAGE	KUNIHIKO	COFVP	x	
JAYCOX	E.	AEVP	x	
KARAOSMANOGLU	ATTILA	ASIVP	x	
RAJAGOPALAN	VISVANATHAN	VPPRE	x	
THAHANE	TIMOTHY	SECGE	x	
DIRECTORS				
AGUIRRE-SACASA	FRANCISCO	EXIDR	x	
BANETH	JEAN	IECDR	x	
BOCK	DAVID	DFS	x	
BURKI	S.J.	AS	x	
CHOKSI	ARMEANE	LADR	x	
HOLSEN	JOHN	CEC	x	
LOH	PING-CHEUNG	LA3DR	x	
RAO	D.C.	FRS	x	
SHAKOW	ALEXANDER	SPRDR	x	
STECKHAN	RAINER	LA2DR	x	

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FINANCIAL MARKETS SEMINAR - MARCH 30-31, 1989

LIST OF WORLD BANK, IFC AND IMF STAFF ATTENDING LUNCHEON -MARCH 31, 1989

OTHER BANK STAFF

			LUNCH YES:	NO
ALLEN	MARK	IMF	X	:
ECCLES	STEVE		X	:
HAUG	MARIANNE	EXC	X	:
HUSAIN	ISHRAT	IECDI	X	:
JOHNSON	JOHN	LA2CO	X	:
JUNZ	HELEN	ETR/IMF	X	:
LEVY	PAUL	LA4CO	X	:
MCCARTHY	DESMOND	IECAP	X	:
MYERS	ROBERT	EM4CO	X	:
O'BRIEN	STEPHEN	AFRVP	X	:
OPPER	BARBARA	FRS	X	:
PFEFFERMANN	GUY	IFC	X	:
SALOP	JOANNE	AF4CO	X	:
STEER	ANDREW	FRS	X	:
TYLER	WILLIAM	LA4CO	X	:
UNDERWOOD	JOHN	IECDI	X	:
VERSLUYSEN	EUGENE	IECDI	X	:
YENAL	OKTAY	AS1	X	:
YURAVLIVKAR	DAVID	LA2CO	X	:

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON - 3-31, 1989	CONFIRMED/	PENDING/	REFUSAL/
APOTEKER	THIERRY	BANQUE INDOSUEZ, PARIS			X
BERNARD	RAIMAR	COMMERZBANK, WEST GERMANY			X
BISCHOFBERGER	ALOIS	CREDIT SUISSE, ZURICH	X		
BOUTISSOU	SERGE	CREDIT LYONNAIS, PARIS			X
BRAINARD	LAWRENCE	BANKERS TRUST, NEW YORK	X		
DEALTRY		BIS			X
DESJARDINS	B.	CREDIT LYONNAIS			X
DEVELLE		BANQUE PARIBAS			X
FOLEY	PATRICK	LLOYDS BANK, LONDON	X		
GERAGHTY	PETER	NMB, NEW YORK	X		
GENDREAU	PAUL	J.P. MORGAN, NEW YORK	X		
HILTON	DAVID	BANK OF NOVA SCOTIA		X	
HENLEY	THOMAS	SALOMON BROS. NEW YORK		X	
KUCZYNSKI	PEDRO-PABLO	FIRST BOSTON INT., NEW YORK			X
LARKUM	CHARLES	JAMES CAPEL & CO., LONDON	X		
LOMAX	DAVID	NATIONAL WESTMINSTER (LONDON)			X
CERETTILI	JOSE	BOFA	X		
MURPHY		CHASE MANHATTAN			X
NASHASHIBI	HIKNAT	ARAB BANKERS ASSO., LONDON			X
NEUHAUS	WALTER	DEUTSCHE BANK, FRANKFURT	X		
O'BRIEN	RICHARD	AMEXBANK, LONDON	X		
RHODES	WILLIAM	CITIBANK, N.A., NEW YORK		X	
SCHULMAN	HORST	INSTITUTE OF INTERNATIONAL FINANCE	X		

COMMERCIAL BANKERS		ALL INVITED TO LUNCHEON - 3-31, 1989	CONFIRMED/	PENDING/	REFUSAL/
SHOBU	HOSHITOSHI	IBJ, JAPAN	X		
SURATGAR	DAVID	MORGAN GRENFEL, LONDON	X		
SAKUMA	USHIO	BANK OF TOKYO, JAPAN	X		
TANABE	MASAO	JAPAN CENTER FOR INTERNATIONAL FINANCE (JCIF)	X		

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WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/03/17 DUE DATE : 00/00/00
LOG NUMBER : 890320001 FROM : Mr. Bock (MAQ)
SUBJECT : BRIEFING: Meeting with Sir Jeremy Morse, Chairman, Lloyds Bank at 12 noon Monday, March 20, 1989.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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

COMMENTS :cc: Mrs. Haug, JV (f0llow file)

FORM NO. 75
(6—83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 3/17/89

NAME	ROOM NO.
Mr. Conable	E1227
(Through: Mr. Qureshi)	E1241

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

REMARKS:

Attached is the briefing for
Mr. Conable's meeting with
Sir Jeremy Morse.

FROM: David R. Bock	ROOM NO.: D1212	EXTENSION: 72942

<u>BRIEFING FOR MR. CONABLE</u>

Meeting With Sir Jeremy Morse,
<u>Chairman, Lloyds Bank</u>

In the light of Secretary Brady's Bretton Woods Committee speech, we expect Sir Jeremy will wish to focus the discussion with Mr. Conable on the current state of thinking of the Bank both as to the role it will play in facilitating debt reduction as well as the appropriateness of the apparent shift in the debt strategy.

Because of the very short time that has elapsed since Secretary Brady's speech, there has not been any public reactions to its message by the large U.K. banks of which we are aware. Because Lloyds continues to be heavily exposed to LDCs (particularly in Latin America; LDC exposure at the end of 1987 accounted for over 100% of equity), it is reasonable to expect Sir Jeremy will indicate considerable caution, if not skepticism, about the wisdom of pursuing debt reduction as a key component of a financial relief program.

Along with the other U.K. clearing banks, Lloyds made a very large provision (L1,066 billion) in 1987 against its exposure to so-called "problem" countries. Despite this, Lloyds has reported the largest operating profit of the big U.K. banks in both 1987 and 1988. Nevertheless, protecting its LDC holdings continues to be costly for Lloyds. The new money process, in particular, has become quite an onerous route for the British banks to take, because of the Bank of England's requirement that they set aside specific provisions for new exposure to "problem" countries, provisions which are excluded from the banks' capital base (unlike in the U.S.).

Lloyds has, however, continued to behave as a "systemic" player. It played an important role in putting together the refinancing package currently in the final stages of completion for Colombia. Lloyds is one of the banks that has committed to the so-called "top-up" facility of $200 million (a facility not intended to be subscribed to by the generality of Colombia's creditors on a <u>pro rata</u> basis). <u>Mr. Conable may wish to express his appreciation of this effort by Lloyds</u>. It should be expected, however, that Sir Jeremy will express great concern that the new talk of debt reduction will make future such new lending exercises extremely difficult to repeat.

Attached is a brief statement on Lloyds' LDC exposure.

DFS
3/17/89

Lloyds' LDC Exposure

In making large provisions against LDC exposure, Lloyds became one of the two U.K. "Big Four" banks to report a loss in 1987. In June 1987 Lloyds, in common with other U.K. banks, made an exceptional provision against exposure to problem countries. The charge to income was L1,066 million (US$1:L 0.53) and, at the same time, Lloyds transferred L58 million from the general loan loss reserve to the specific reserve for problem countries. Its balance sheet at the end of the year was not significantly weakened. Lloyds' operating performance was the best among the "Big Four" in 1987. Nevertheless, Lloyds' net exposure to problem countries still accounted for over 109% of equity at the end of 1987. At the end of 1987, 83% of Lloyds' LDC exposure was in Latin America. Brazil, Mexico and Argentina were responsible for respectively 28%, 19% and 10%, of total LDC exposure. The reserves against LDC exposure at that time covered 33% of total LDC exposure.

In 1988 Lloyds reported again the best operating profit of the large U.K. banks (L952 million pre-tax). Lloyds has been very successful in controlling costs and selecting new profitable markets. Lloyds has actively cut back its international operations and is beginning to look more like a regional bank. Lloyds' after-tax income in 1988 was L615 million. Lloyds made another exceptional provision for LDC exposure of L115 million, considerably smaller than the L1.066 million in 1987. It received L62 million from Brazil. LDC exposure was reduced slightly (by L100 million to L3.8 billion), loan-loss reserves stayed virtually equal at 34% as a percentage of exposure, and the number of problem countries where Lloyds is involved decreased to 33 countries (from 35 in 1987).

DFS
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at

Jenny -

Deidra from the UK ED's office called and wanted an appointment for Sir Jeremy Morse who will be visting Wash. on April 1-2.

Please call with possible appointment for BBC. Thanks.

ok - late P.M. J 04/02

CH

ext. 54562

ES notified

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Please call with possible appointment for BBC. Thanks.

CH

ext. 54562

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WASHINGTON, D. C. 20431

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SIR JEREMY MORSE, CHAIRMAN

LLOYDS BANKPLC,

LONDON

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START TEXT HERE

THIS IS TO THAMK YOU AND KIT MCMAHON FOR YOUR TELEX OF JANUARY 23. WE WOULD LIKE TO PURSUE YOUR SUGGESTION AND WILL REVERT TO YOU IN THE NEXT WEEK OR SO TO DISCUSS MODALITIES. WE WOULD BE GRETEFUL IF YOU WOULD CONVEY OUR REPLY TO KIT MCMAHON.

BEST REGARDS,

MICHEL CAMDESSUS	BARBER B. CONABLE
INTERFUND	WORLD BANK

DISTRIBUTION

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DMD

MR. FINCH

MR. R. BROWN

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TELEX NO.:

CABLE ADDRESS:

DRAFTED BY NAME (TYPE):

EXT.: 4600 DEPT.: OMD DATE: 1/26/87

AUTHORIZED BY NAME (TYPE): MICHEL CAMDESSUS

AUTHORIZED BY NAME (TYPE):

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

BARBER B. CONABLE
President

March 2, 1989

Sir Jeremy:

I want to thank you for your letter providing me with information about the meeting you and Sir Kit McMahon had with the Director of Friends of the Earth, Jonathon Porritt, regarding the Brazilian Power Sector loan. This loan has aroused a great deal of interest and concern, and I was most interested to receive and read carefully the Friends of the Earth proposal, which I have passed on to others here at the Bank.

As you know, the World Bank is committed to sustainable development, and we strongly support the strengthening of social and environmental safeguards for investments in Brazil's power sector. The decision of how best to meet the electricity needs of an expanding population and industrial society, while at the same time protecting fragile ecosystems and the Amerindian population from the adverse effects of power projects, is a major challenge facing Brazil. We believe that the Bank's involvement in Brazil's power sector will help to ensure that environmental and social considerations are given greater attention when difficult choices are made in meeting the country's future power needs.

Environmental interest groups, such as Friends of the Earth, are increasing public awareness of and concern about environmental values which, in turn, makes governments generally more amenable to the constructive influences the Bank can bring to bear on project design and implementation. The agreements we have reached with the Brazilian Government to include environmental safeguards in the power sector are among the most far-reaching ever negotiated by the Bank with a developing country, but it is clear that much remains to be done.

Although I know you are well informed about the Bank's involvement in the Brazilian power sector, I am enclosing a briefing note which traces our involvement and discusses the objectives and status of the proposed second power sector loan.

Again, thank you for passing along this communication from Friends of the Earth for my special consideration. Do let me know when you will be in Washington. Best wishes.

Sincerely,

Barber Conable

Enclosure

P.S. I see on my calendar we will be meeting on March 20th; I look forward to continuing our discussion.

Sir Jeremy Morse
Chairman
Lloyds Bank Plc
71 Lombard Street
London EC3P 3BS

cc: Mr. Cassell, Mr. Choksi, Mr. Aguirre-Sacasa

BRIEFING NOTE

On The World Bank's Involvement In Brazil's Power Sector

1. The First Power Sector Loan was approved in 1986. This loan supported the development of an Environmental Master Plan for the power sector; the Master Plan establishes guidelines for the treatment of environmental, resettlement and tribal matters, and provides for specific project-by-project social and environmental action plans. It also provides for measures for institutional strengthening, financial support, and monitoring and evaluation in connection with the implementation of guidelines and project specific action programs. The Environmental Master Plan is intended to be a dynamic instrument; it is updated on an annual basis.

2. Prior to 1986, there had been only limited progress on environmental protection in the power sector. In the last two years, however, the quality of the Government's efforts in this area has steadily improved. We believe that World Bank operations and our ongoing dialogue with the Government have helped to expedite this process. The development and implementation of the Environmental Master Plan have led to a significant strengthening of social and environmental safeguards in the power sector. The Government has created special departments of the environment in ELETROBRAS (the holding company in the power sector) as well as in other major power utilities. Some 200 environmental experts have been hired to oversee the environmental implications of all major decisions in the power sector. In 1986, a first set of guidelines for environmental, social and tribal matters was developed and agreed upon within the power sector. These guidelines were approved in 1987 by the responsible federal agencies. In 1987, six major studies were commissioned by ELETROBRAS; these address questions related to Amerindians, riverine populations, river basin planning, flora and fauna, water quality and coal fired plants; the studies will serve as the basis for further improvement of sectoral guidelines under the Environmental Master Plan. New parameters for environmental licensing of power projects were established by the Federal Government in 1987. In 1988, the National Environmental Council approved resolutions for mandatory public hearings for all power projects, and the government passed legislation which makes it mandatory that at least 1% of the total cost of any power project be allocated for environmental conservation purposes.

3. Finally, project-level studies and action plans were developed and implemented by the regional power companies. For projects at the inventory and feasibility stages, the environmental and social analyses led to important design adjustments. For projects at more advanced stages of planning, action programs were begun to eliminate or mitigate environmental and social costs (for example to assure local participation in resettlement planning, to demarcate Amerindian areas in the vicinity of proposed projects, and to initiate conservation and archeological salvage operations). For projects which were close to completion, and which therefore did not allow for overall design adjustments, mitigatory interventions (to the extent that they were still feasible) were stressed.

4. The proposed <u>Second Power Sector Loan</u> would build on progress achieved under the previous loan. The second sector loan would be a quick-disbursing adjustment operation; the proceeds of the loan would be used to finance general country imports. The loan is designed to help the Federal Government and the state governments undertake a series of policy and institutional reforms, financial measures and tariff increases which are required to enable the sector to achieve agreed investment and financial targets. The loan would also support strengthened environmental and social safeguards in the identification, planning, construction and operation of power projects.

5. This loan would not finance any specific investments in the power sector; it would thus not finance hydro-power projects in the Amazon. Moreover, this loan would not finance the construction of nuclear power plants. The Government of Brazil has not asked us to finance any of its nuclear plants, and we have no intention of doing so. Nuclear investments would be explicitly excluded from reimbursement under this loan.

6. The proposed Second Power Sector Loan would support the strengthening of federal and state agencies that are by law responsible for environmental licensing of power projects, and for supervising and/or implementing actions provided for under the power sector's Environmental Master Plan. Implementation of the Master Plan would be strengthened in the folllowing ways:

(a) All sector utilities would make detailed commitment to project-by-project action programs.

(b) ELETROBRAS' social and environmental monitoring and evaluation systems would be put in place.

(c) A separate accounting system would be developed for environmental and resettlement expenditures.

(d) Staffing of the environmental units in key agencies would be completed.

(e) Recommendations made by a sectoral working group analyzing environmental assessment and licensing procedures would be implemented.

(f) Procedures for timely land acquisition for resettlement programs would be established.

(g) A working group would be established to propose operational mechanisms for river basin management schemes.

(h) ELETROBRAS would sponsor a study of ways in which Amerindians affected by power projects could be provided with independent legal assistance.

We believe that we have made substantial progress with the Brazilian Government in the design and implementation of environmental safeguards in the power sector. The agreements we have reached are among the most far-reaching ever negotiated by the Bank with a developing country.

Energy Conservation

7. In the past several years, the Brazilian Government has given serious attention to energy conservation measures as an alternative to investments in new capacity. These efforts have been strongly supported by the Bank. Currently, energy conservations is achieved through a variety of methods, including pricing, load management, system loss reduction, improvement of industrial processes, and advertising campaigns. These measures have met with considerable success, although much more remains to be done. For example, through the introduction of efficient marginal cost pricing, electricity consumption has been reduced by about 5% from original projections, leading to savings in new investment of at least $150 million in 1987. Furthermore, in order to reduce system losses, a considerable effort has been made to upgrade distribution networks; the World Bank alone has made loans totalling some $650 million for the distribution system in the past several years. Consequently, system losses are expected to fall from 12.9% of new generation in 1987 to 11.3% in 1991 (which represents a savings of about $105 million/year). Though the Second Power Sector loan does not finance specific investments, it will reinforce our ongoing dialogue with the Brazilian Government in the power sector, and facilitate subsequent conservation activities that will be the focus of future Bank lending.

Status of the Second Power Sector Loan

8. Negotiations on the proposed $500 million loan are ongoing and, as is usual in large operations of this type, the negotiations are complex. Nevertheless, the Bank and the Government of Brazil have already made a good deal of progress, especially on the environmental aspects of the loan. The Bank is now awaiting the Government's decisions on a number of other issues. When these negotiations are concluded, the loan will be transmitted to the Bank's Executive Directors for their consideration.

External Affairs
World Bank
February 7, 1989

Lloyds Bank

Lloyds Bank Plc
71 Lombard Street
London EC3P 3BS

Chairman

Dear Barber,

As you well know, the Brazilian Power Sector loan has engaged the interest and concern of both environmentalist groups and ordinary people in this country as well as in the U.S. One of the leading groups here is Friends of the Earth, and Sir Kit McMahon and I saw its director, Jonathon Porritt, before Christmas.

As a result of this meeting he has written me a letter, a copy of which I enclose. I do not know how practical his idea is, but I thought that it was worth passing on as one of the more reasonable communications on this subject that I have received. I am also sending it to our government people.

Writing at this time, I would like to send you all good wishes for 1989. I hope that I may be able to see you when I am visiting Washington in the week before Easter.

Yours sincerely,

Jeremy Morse

Mr. Barber B. Conable,
President,
The World Bank,
1818 H Street, N.W.,
Washington D.C. 20433,
USA

Registered in England no 2065
Registered office:

12 JAN 1989

Sir Jeremy Morse
Chairman
Lloyds Bank Plc
71 Lombard Street
London EC3P 3BS.

FRIENDS OF THE EARTH FRIENDS OF THE EARTH

12th January 1989.

Friends of the Earth Limited
26-28 Underwood Street
London N1 7JQ
Telephone 01-490 1555

Dear Sir Jeremy,

RE: POWER SECTOR LOAN TO BRAZIL

Thank you for the meeting of the 21st of December, 1988, in which we had the opportunity to discuss with yourself and Sir Kit McMahon, the involvement of the Lloyds and the Midland banks in co-financing Brazil's Power Sector. I was heartened that both you and Sir Kit expressed a keen awareness of the need to protect the Amazon rainforests, and that we appear not to be at odds over the environmental and social destruction which will be consequent upon the Power Sector loan. I enclose a short summary of our environmental and social concerns in relation to the loan.

During the meeting you suggested that it would be technically within the bounds of the Brazil Creditor Advisory Committee to reshape the loan, rather than to completely renegotiate the co-financing part of the rescheduling package. We feel that by investing in energy efficiency options for the Power Sector, Brazil can meet its energy targets cheaply and efficiently, whilst avoiding irreversible damage to its natural resources by greatly reducing the need for new dams over the next 15 years. The World Bank will benefit by achieving its objectives, namely: the rehabilitation of Brazil's Power Sector; encouraging genuinely sustainable development; and neither compromising its environmental and tribal policy guidelines nor the reputation of its new environmental unit. From the perspective of the commercial banks , they will be investing in a financially 'sounder' option which will guarantee a more rapid rate of return.

I did not go as far as saying this.
JM

The potential and progress for energy conservation in Brazil has been detailed by Brazilian and American scientists in the international journal 'Energy' (Geller et al, Electricity conservation in Brazil: potential and progress, Energy 13(6), 1988). The main conclusion of the paper is that by investing in energy efficiency in the six major end uses for electricity (industrial motors, domestic refrigerators, domestic lighting, commercial motors, commercial lighting and street lighting), which together account for two-thirds of the total projected energy consumption in the year 2000, almost 20% of the total projected energy demand could be saved. This could eliminate the need to construct nearly 19GWh of power capacity, equal to about two-thirds of the new capacity that must be completed by the year 2000.

cont/.

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London N1 7JQ
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The savings would be considerable. Investment in new capacity (dams under the Power Sector), would cost utilities at least $38 billion, whereas the required investment in greater end-use efficiency is estimated to be of the order of $8 billion.

The benefits of improving the efficiency with which electricity is used have been summarised by Geller et al. (1988):

(i) Expanding electricity supply is highly capital intensive.

(ii) Increasing end-use efficiency is less costly than increasing electricity supply.

(iii) There are major opportunities for increasing the efficiency of electricity use in a cost effective manner.

(iv) Adopting more efficient end-use equipment holds down electricty bills and can lead to improved standards of living.

(v) Increasing the efficiency of end-use equipment can strengthen Brazil's growth and export potential.

(vi) Slowing the rate of electricity supply expansion has positive environmental impacts.

Within the overall objective of providing least cost energy services, Brazil's energy authorities and utilities need to make a commitment to a comprehensive program of energy conservation investment. The role of the commercial banks would be to provide loans to industries, commercial building owners, public utilities and municipalities for electricty conservation. For example, government municipalities could be financed to install energy efficient street lighting. A variety of mechanisms could be envisaged for banks to guarantee a rapid return on their investment, for example, banks could buy and distribute the necessary equipment, such as high pressure sodium lamps, and receive their returns through the amount saved by municipalities on their electricty costs.

Banks could provide loans for industries to manufacture or install energy efficient equipment. In addition to being cost-effective for industries to adopt energy efficiency measures, there is considerable potential for exporting energy efficient goods.

It is important to note, as concluded by Geller et al., that "The energy efficiency strategy involves no reduction in economic growth or energy services. In fact, by providing these services in the most cost-effective manner, economic output and standards of living can rise more rapidly. A brief summary of the 'energy use' and 'savings potential' sections of Geller et al's. paper is attached.

cont/.

I feel that we are mutually agreed as to the end goal, that of protecting the Amazon rainforests and encouraging truly sustainable development. The energy efficient option seems to me to be a thorough, positive and practicial mechanism for achieving that goal. I hope that you will feed this idea into the system with all due haste, since decisions on the loan are imminent.

I have sent a copy of this letter to Sir Kit McMahon.

Yours sincerely,

Jonathon Porritt

Jonathon Porritt
Director

THE BRAZILIAN POWER SECTOR II LOAN

1.THE SOCIAL AND ENVIRONMENTAL IMPACT

Memorandum prepared by Friends of the Earth

23rd December 1988.

A. SOCIAL AND ENVIRONMENTAL IMPACT OF THE POWER SECTOR II LOAN.

1. Will the Power Sector II Loan support the construction of dams?

Sector loans are quick disbursing and general payments, not tied to specific projects. The loan will provide balance of payments relief and disburse against general country imports. The purpose of the Power Sector II Loan is to continue to support rehabilitation of the Electric Power Sector initiated under the First Power Sector Loan. According to documentation supplied to the commercial banks, the loan is intended to 'focus on removing bottlenecks in transmission and distribution of electricity and could also include power generation projects'.

Serious environmental objections were made to the Power Sector Loan by two Executive Directors (including the US ED), at the World Bank ED meeting on July 9th, 1986. The link between the sectoral loan and specific projects, ie dams, was therefore clear to the World Bank.

2. Specific Projects.

The Bank itself has highlighted the links between specififc projects and the Power Sector. In its note to the Development Committee Meeting (April 13, 1988, 'Environment and Development: implementing the World Bank's New Policies'), the Bank specifically mentions its loans to the Brazilian Power Sector as an example of a loan ' which contains certain conditions concerning resettlement of affected populations in power project areas, staffing and equipping environmental protection agencies, and use and designation of wetlands'. More concretely, a project designed to mitigate the social impact of the Itaparica dam by providing a resettlement plan for displaced peoples, was a direct result and indeed condition of World bank funding to the Power Sector.

3. <u>The Environmental Master Plan.</u>

The elaboration of an Environmental Master Plan was a condition of the Bank's first loan to the Brazilian Power Sector. In the event, a satisfactory Master plan was never produced during the term of the First Power Sector Loan. To date, it is still not complete. The first volume of the Plan has been made available to Non Governmental Organisations in the UK, and a detailed critique sent to the World Bank (October 1988). No reply has yet been received. In the view of Friends of the Earth, the Plan fails to provide; specific measures to protect the environment; programs to strengthen the Power Sectors environmental capacity; or a timetable for implementing the Plan. These are all specific requirements of the loan agreement. The second volume of the Master Plan is undergoing revision, and the third volume has been scrapped.

It is also clear from discussions with both the Environment Department and Latin American Unit of the World Bank, that they themselves see serious shortcomings in the Plan as it stands:

i) That the Bank considers the resettlement and regional planning guidelines to be deficient and in need of updating.

ii) That the Bank considers that the guidelines on the Indian components in the sector are not ready, neither are they specific enough in their present form.

iii) That the Bank considers that the guidelines on water quality, coal-fired plants, flora and fauna are not ready.

iv) That the Bank considers that there should be improvement in specific measures for the structured representation by the local populations.

4. <u>Implementation of the Master Plan.</u>

The Master Plan does not provide for the institutional safeguards and structures necessary to implement the environmental and social standards required under the loan agreement. Existing government agencies (and the regional Power Companies) are either inadequate, or incapable of meeting environmental and social conditions agreed under the loan. Since October 1987, FUNAI, the government Indian Agency, has been under investigation by the Attorney General following allegations that it has been engaged in corrupt dealings with timber on Indian lands. Brazil is at present in flagrant violation of World Bank loan conditions on the Carajas Iron Ore Mine and railway, by allowing the licensing of 22 Blast furnaces to be fuelled by charcoal produced from pristine rainforest. The 1988 US Senate Appropriations Bill states that: 'If within four months of the enactment of this provision, substantial progress in implementing the Carajas environmental provisions has not been demonstrated, the US Executive Director to the World Bank is directed to seek delay in consideration, and if necessary oppose future loans to Brazil'.

5. Social Impact.

Projects that are already underway will displace some 56,000 people, while the total numbers to be displaced by the projects in the 'Plano 2010' are estimated at around 500,000, including numerous Indian peoples.

6. Environmental Impact.

By their very nature, dams destroy forests and displace people. Projects under the Brazil's Power Sector have been beset by a catalogue of environmental problems, ranging from the use of dangerous, toxic herbicides for forest clearance, through massive water fouling, to loss of uninventoried forest and species extinction. Disruption and elimination of river fisheries, disruption of downstream hydrology, impairment of water quality and spread of water associated diseases have all been features of dams financed by the First Power Sector loan.

The negative effects on water quality and hydrology can to some extent be circumvented by careful planning before, during and after construction, but the experience of the First Power Sector Loan casts grave misgivings on the ability of the regional executing agencies to implement a Master plan aimed at mitigating them.

The negative effects on fauna and flora are not so easy to circumvent, and in most cases in the Amazon, because of the high level of endemism (species occuring in one location and no other), irreversible damage to unique flora and fauna is inevitable.

As the World Bank itself states, 'The rate of destruction of the world's surviving tropical rainforests is a matter of great and growing international concern' and its' protection is of the 'highest priority'. What is alarming about the Power Sector is the scale of the destruction envisaged. The most serious immediate effect of hydro-development is the destruction by inundation of unique forests and other valuable ecosystems. Scientists working in the Amazon estimate that the area of land to be flooded during hydroelectric development in Brazilian Amazon is 150,000 square kilometres (Johns, 1988, Ambio 17,5). This figure accepted by groups working in Brazil, is considerably more than the already large estimate given in the Master Plan, of 25,994 square kilometres. It should be noted that the 'official' figures have consistently underestimated the areas of inundation in existing projects.

The Altamira-Xingu hydro-power complex, presently comprised of two dams, Babaquara and Kararao, is expected to flood a total area of nearly 7,000 square kilometres of unique primary rainforest. Much has been made of the fact that 'original plans for Babaquara have been droped', but there is no inidication that an alternative site will be found or that the alternative plan will be any better. In all probability, Babaquara will simply be re-instated.

Pleistocene refugia are not only areas of high biodiversity, but are centres of concentrated endemism - containing many species occuring in that one location and nowhere else. In such cases it is a nonsense to suggest that establishing compensatory tracts of forest is in any way satisfactory Wildlands management. The Altamira site within the Assurini do Xingu and Arawete territories will be flooded by the Babaquara dam. The 'Caxinduba' site on the Rio Xingu, is also a First Priority area which will be inundated if Electronorte opts, as planned, for the integral use of the Xingu basin. Even if the Pleistocene refugia are only partially affected, with the wave of colonisation and development following the hydro project, it is pure folly to believe that any effective protection can be secured for these sites. Of the more spectacular, known species that are threatened around and east of the Xingu river, biologists are particularly concerned about the bearded saki, the white-whiskered spider monkey, and the hyacinth macaw.

These unique and threatened Pleistocene refugia should be given immediate and complete protection. As recommended by the World bank (Environmental Policies and Procedures of the World Bank, OMS 1984), 9; "In environmental work, prevention is preferable and generally less costly than remedial actions which may not always be possible", and 4; "The Bank endeavours to ensure that projects with unavoidable adverse consequences for the environment are sited in areas where the environmental damage is minimized, even at somewhat higher initial costs".

It is clear that the Altamira-Xingu complex, among other hydro schemes, is set to maximise irreversible environmental damage and extinctions. The only option which satisfies the Bank's own criteria is to withold disbursement of the Second Power Sector Loan, or re-orientate the funds towards projects which don't harm the environment. That the first volume of the Master Plan fails to address the need to designate the above sites as 'Wildlands of Special Concern' is clearly unsatisfactory, and on these grounds alone, the plan should be rejected.

Robert Goodland of the Bank's environment unit has stated that the first policy element of the "Wildlands" policy is that; "The Bank normally declines to finance conversion of wildlands of special concern (which)...include...specific geographical priorities". In case of exceptions, the third policy element is that; "all deviations must be explicitly justified. The options must be aired outside the implementing Ministry and should include NGOs". No such justification for totally disregarding the Bank's Wildlands Policy is contained within the Master Plan. Options have not been discussed, nor have Brazilian NGOs or affected communities been involved in discussing them.

Friends of the Earth
TRF/KT/12/88

THE BRAZILIAN POWER SECTOR II LOAN

2.ENERGY EFFICIENCY OPTIONS.

Memorandum prepared by Friends of the Earth

23rd December 1988.

Summary from Geller et al., "Electricity conservation in Brazil: potential and progress (Energy 13(6) 461-536, 1988).

Improving the efficiency with which electricity is used is desirable for the following reasons:

(i) Expanding electricity supply is highly capital intensive.

(ii) Increasing end-use efficiency is less costly than increasing electricity supply.

(iii) There are major opportunities for increasing the efficiency of electricty use in a cost effective manner.

(iv) Adopting more efficient end-use equipment holds down electricty bills and can lead to improved standards of living.

(v) Increasing the efficiency of end-use equipment can strengthen Brazil's growth and export potential.

(vi) Slowing the rate of electricity supply expansion has positive environmental impacts.

ENERGY USE.

Electricity demand forecast

Year	Electricity Demand (Twh)	Capacity required (GW)
1980	114.5	30.5
1985	165.9	41.6
1990	237.5	57.3
1995	320.1	74.7
2000	420.7	95.3

SAVINGS POTENTIAL.

A. Industrial Sector

1. More efficient motors.

a) Manufacturers in Brazil produce high quality motors that are typically 4-5% more efficient than standard motors at smaller sizes (<20 h.p) and 2-3% more efficient at larger sizes.

b) Improving the efficiency of motors in the commercial and industrial sectors by only 3% could save an estimated 5.8 TWh by the year 2000.

c) Although more efficient motors cost approx. 25% more than standard motors, the payback period is generally <3 yr and the internal rate of return on the first cost is in excess of 40%/yr.

2. Motor speed controls.

a) For many motor applications, there are substantial energy losses during part-load operation. Variable speed drives (VSDs) can be used to increase efficiency of motors during part-loan operation.

b) Studies in the US indicate savings potential of up to 7.3% for many motor applications. Assuming similar savings in Brazil, full implementation of VSDs by the year 2000 could reduce baseload electricity by about 30 TWh, thus obviating the need for nearly 6.6 GW of installed generating capacity.

c) VSDs are expensive in Brazil, but even so, the capital cost for reducing demand is about half that for supplying demand with hydroelectric power at accepted discount rates of 10-15%.

3. Industrial Structure.

a) A high proportion of electricty consumption in Brazil is for low 'value-added' industries such as non-ferrous metals. The seven most electricity-intensive industries account for 52% of industrial electricity use but only 13% of industrial value added. Moving economic development away from basic materials processing towards fabrication and finishing could be an important means of containing growth in electricity consumption in Brazil.

B. Residential Sector.

1. Refrigerators.

a) Without any improvement in efficiency, refrigerators could consume 25 TWh by the year 2000. If the most efficient models available worldwide are used, this would reduce electricity demand for refrigerators by 60%, holding electricity demand for this sector at 10 TWh.

b) Efficient models cost about 10-15% more, but the payback period is less than 3 years on the extra cost and internal rates of return in excess of 40%.

c) Producing and selling more efficient refrigerators should be very cost effective for bot consumers and society as a whole.

2. Hot Water Heating.

a) Private companies in Brazil already produce small heat pump water heaters (HPWHs) for export and for the domestic market. Potential exists for lowering peak demand using HPWHs, thus saving utilities investment costs for other heating methods. At present only wealthy households can afford to use HPWHs.

3. Lighting.

a) Residential lighting could consume 16.5 TWh by the year 2000 assuming that lighting accounts for 20% of residential electricity demand that year. The widespread use of fluorescent lamps could reduce demand for electricity by 50%, thus obviating the need for about 1.9 GW of generating capacity.

C. Commercial and public services sector.

1. Indoor lighting.

a) Electricity consumption for lighting in commercial buildings can be reduced in a number of ways, including: (i) reduced illumination levels, (ii) use of more efficient lamps, (iii) use of more efficient ballasts, (iv) use of improved light fixtures, (v) use of lighting-control systems.

b) Combining these measures using sensors and controls, and more efficient lighting can reduce electricity consumption by up to 60%. The conservation measures are cost effective for consumers, with paybacks of 3 years or less. Direct savings in the year 2000 would eual 15 TWh.

2. Air conditioning.

a) Air conditioners represent a growing fraction of peak energy demand.

b) One major Brazilian producer is assembling efficient room air conditioners in Brazil for export only. The export models consume 20-25% less electricity than domestic models.

3. Outdoor lighting.

a) Outdoor lighting accounts for about 4% of total electricity consumption in Brazil.

b) High Pressure Sodium lamps consume 80% less electricity than incandescent lamps. Fully implementing HPS lamps could save 6.7 TWh of demand in the year 2000.

c) HPS lamps will be cost effective for municipalities.

D. Overall Savings Potential.

1. Major end-uses.

a) The six major end-uses described; (i) Industrial motors, (ii) Domestic refrigerators, (iii) Domestic lighting, (iv) Commercial motors, (v) Commercial lighting, and (vi) Street lighting, will account for two-thirds of total electricity consumption in the year 2000.

b) Total savings already described could save 83.8 TWh, almost 20% of the total electricity demand projected for 2000.

c) The savings can be obtained through technologies that are technically and economically feasible, and in many cases already available in Brazil.

2. Savings on new generating capacity.

a) Reducing electricity demand in 2000 by 83.8 TWh could eliminate the need to construct nearly 19 GWh of power capacity, equal to about two-thirds of the new capacity that must be completed by the year 2000 (that is not already under construction).

b) Avoiding the need for 19 GWh of new capacity would save utilities from having to invest at least $38 billion.

c) The required investment in greater end-use efficiency, on the other hand, is estimated to be on the order of $8 billion.

Friends of the Earth

from
Anthony Toft

SIR JEREMY MORSE

Sir Jeremy Morse was born in London in 1928 and was educated at Winchester and New College, Oxford. On leaving Oxford in 1953 he joined Glyn, Mills & Co., where he was trained in banking and became a Director in 1964.

In October 1964 he moved to the Bank of England, where he was Executive Director on the home side from January 1965 until June 1966. From July 1966 until September 1972 he was Executive Director in charge of overseas affairs and Alternate Governor for the United Kingdom on the International Monetary Fund.

In September 1972 he was chosen to be Chairman of the Deputies of the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) of the International Monetary Fund, a position which he held for two years until the Committee was disbanded in September 1974.

He joined Lloyds Bank in May 1975 as Deputy Chairman, and became Chairman at the end of March 1977. In June 1984 he became President of the British Bankers' Association. He is also President of the European Banking Federation, a Director of Imperial Chemical Industries, a nominated Member of the Council of Lloyd's, the Warden of Winchester College and Chancellor of Bristol University.

Sir Jeremy is married with 3 sons and a daughter.

JANUARY 1989

Finance Briefing for Mr. Conable

Lloyds Bank plc ("Lloyds") is the principal bank and holding company in Lloyds Bank Group, which is the smallest of the "Big Four" clearing bank groups in terms of total consolidated assets. In 1986 Lloyds underwent a reorganization involving the merger of itself with Lloyds Bank international "LBI", the bank's subsidiary formerly responsible for the group's foreign operations. Its Investment Banking Group includes the global treasury division of Lloyds, the capital markets group in Switzerland and the investment banking arm of Lloyds; German subsidiary, Schroder, Munchmeyer, Hengst & Co.

Unlike the three other major clearers in the U.K., Lloyds did not acquire a jobbing (market-making) or stockbroking firm in preparation for the deregulation of the U.K. securities markets, which took place in October, 1986. Lloyds thus chose not to become a market-maker for equities. In 1987 it was the first house to withdraw from market-making in both Eurobonds and gilts (U.K. government securities). In the U.S., however, Lloyds' subsidiary (Lloyds Government Securities Corporation - "LGSC") was recognized by the Federal Reserve Bank of New York as a primary dealer in U.S. government securities in December 1987.

Prior to 1987, Lloyds Investment Bank had been regularly invited to join, as a co-manager, the World Bank's management group for sterling transactions. Following its withdrawal from the gilt market, Lloyds Bank has not been in contact with the World Bank about sterling issues. The syndicate we envision for sterling in the future will not include them. Lloyds has also occasionally co-managed some Swf public issues for the World Bank in the past. The Bank's Investment Department holds short-term cash with Lloyds, London.

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

BARBER B. CONABLE
President

February 28, 1989

Dear Mr. Zholobov:

Many thanks for your kind invitation to attend the April meeting of the Council of the International Investment Bank. I will, unfortunately, be unable to attend.

I do hope, however, that any of your colleagues who may visit Washington will feel free to contact our operational staff for discussions on countries of common membership.

May I take this opportunity to wish you every success with the meeting of the Council.

Sincerely,

Barber Conable

Mr. V. Zholobov
Executive Secretary
International Investment Bank
17, Presnensky Val
Moscow, D-22
USSR

CONFIDENTIAL

February 22, 1989

Mr. Conable o/r

Barber -

Attached is the invitation I mentioned on the phone. We have not replied, pending your return. I have consulted with Mr. Thalwitz, whose countries are involved.

We could respond in a strictly operational fashion and have someone from EMENA attend because of the mutual interests in countries in which both the International Investment Bank and we operate. The EMENA Region has previously discussed countries of mutual interest when IIB staff visited Washington. It is possible, but in my view unlikely, that such a low key response would be treated on its merits and there would be no political follow-up. However, it is also probable that by attending the IIB's annual meeting we lay the basis for a claim to reciprocity. While we have no observers at our Annual Meeting, a request for Special Guest or Visitor Status would be hard to reject once we had attended the IIB meeting as an observer. And, of course, the Development Committee does have regional banks attending as observers. Although these banks have as members exclusively, or preponderantly countries which also are members of the Bank, there is no rule, as far as I know, which suggests that a regional bank with some countries who are members of the Bank (i.e., Poland, Hungary, Romania, Yugoslavia) can be automatically excluded. At a minimum we might, therefore, have a protracted political debate in dealing with such a request.

OK BBC

On balance, therefore, I believe we should decline and indicate that discussions on countries of mutual interest can be handled at an operational level whenever IIB staff is in Washington.

Can we discuss this as soon as possible after your return, since a response is requested by March 15.

Ernest Stern

cc: Mr. Thalwitz

"Hold"

JT
MH/BBC
(O/R)

(2/27/89

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/02/06 DUE DATE : ~~89/02/27~~ 3/3/89
LOG NUMBER : 890210005 FROM : Mr. V. Zholobov
SUBJECT : Invitation to attend or to send observer re Meeting of the Council of the Intern'l. Investment Bank on Apr 11-12, 1989 in Moscow.
OFFICE ASSIGNED TO FOR ACTION : Mr. E. Stern (E-1227)

ACTION:

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

Original w/ JT as of 2/23/89, along w/ note from ES.

COMMENTS :cc: mr. Aguirre-Sacasa
Note 2/22: Please see attached, a note from Mr. Stern requesting to discuss further since a response is requested by March 15.

CP

JT - (Reminder)
You have the original of this to discuss w/ BBC.
Pls. return to me.
RETURN TO
→ CP

2/15/89
2-247

JF
~~JLUS~~
~~[illegible]~~
~~[illegible]~~

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/02/06
DUE DATE : 89/02/27
LOG NUMBER : 890210005
FROM : Mr. V. Zholobov
SUBJECT : Invitation to attend or to send observer re Meeting of the Council of the Intern'l. Investment Bank on Apr 11-12, 1989 in Moscow.
OFFICE ASSIGNED TO FOR ACTION : Mr. E. Stern (E-1227)

ACTION:

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

COMMENTS :cc: Mr. Aguirre-Sacasa

MR. STERN

I BELIEVE THIS IS THE LETTER YOU REFERRED TO THIS AFTERNOON. UNFORTUNATELY THE MEETING IS IN Москва.

JOSUÉ TANAKA
14 FEB 89
18:00

Международный Инвестиционный Банк

INTERNATIONAL INVESTMENT BANK

Post address: 17, Presnensky Val, Moscow, D-22, USSR
Telegrams: International Investment Bank, Moscow
Telex: 7558. 7594

No. 09-29/98

Mr.Barber B.Conable
President of the International
Bank for Reconstruction and
Development
1818 H.Street. N.W.,
Washington, D.C.,
20433, USA

February 6, 1989

Dear Mr.Barber B.Conable,

On April 11-12, 1989 the Meeting of the Council of the International Investment Bank will be held in Moscow to consider the report on the Bank's activities for 1988.

On behalf of the Board of the International Investment Bank I have pleasure to invite you or your nominees to attend the Meeting as observers.

We would be much obliged if you could inform us before March 15, 1989 of your acceptance of our invitation. Meanwhile we are sending you herewith the respective information materials.

Yours sincerely,

V.Zholobov
Executive Secretary

Encl.

INTERNATIONAL INVESTMENT BANK

THE MEETING OF THE COUNCIL

Moscow, 11-12 April, 1989

GENERAL INFORMATION

1. The Meeting of the Council of the International Investment Bank will be held in Moscow,in the Bank's Headquarters Building on 11-12 April, 1989.

2. The working language during the Meeting of the Council will be Russian. If necessary, the Bank can provide an interpreter.

3. For entry visas to the USSR please apply to the Consulate of the USSR Embassy in your country. The Bank's invitation shall serve as the basis for receiving the visa.

4. A Certificate on Vaccination is required for some countries for entry to the USSR.

5. Foreign currency can be changed into the Soviet Roubles in the exchange offices of the Bank for Foreign Economic Affairs of the USSR, at the airport, hatels, etc.

6. Each delegation will be provided with a transport. For transport, medical and other services please apply to the Secretariat of the IIB Council.

7. Daily temperature in the first part of April in Moscow varies from +3° to +15°C.

8. For drawing up documents for the journey to the USSR you may use the services of the Intourist Agency or its partner firm in your country.

We will appreciate if you complete and return to the Bank the attached Attendance Form as soon as possible to enable us better organize all the services during the Meeting. Our postal address: 17, Presnensky Val, Moscow 123557, USSR. Telex numbers: IIB 411358, 411394 (general). Telephone: 253-8024.

3/1
2 pm

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/02/23 DUE DATE : 00/00/00
LOG NUMBER : 890227002 FROM : Mr. Roth (ES)
SUBJECT : BRIEFING: Meeting with Mr. Alexandre Lamfalussy, General Manager of BIS on March 1, 1989 at 2:00 pm
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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_________ FOR YOUR REVIEW AND RECOMMENDATION
_________ FOR THE FILES
_________ PLEASE DISCUSS WITH _______________
_________ PLEASE PREPARE RESPONSE FOR _________ SIGNATURE
_________ AS WE DISCUSSED
_________ RETURN TO _______________

COMMENTS :cc: Mrs. Haug, JV (follow file)

2-24-89
2-405

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 23, 1989

TO: Mr. Barber B. Conable
THROUGH: Mr. Ernest Stern
FROM: Donald C. Roth

EXTENSION: 76588

SUBJECT: Visit of Mr. Alexandre Lamfalussy, General Manager of the Bank for International Settlements (BIS) on March 1, 1989.

Meeting Arrangements and Purpose of Visit

1. Mr. Lamfalussy, General Manager of the Bank for International Settlements (BIS), is scheduled to visit you on March 1, 1989, at 2:00 p.m. He will earlier have met Mr. Stern and me and, at a luncheon, also Messrs. Arlman, Sherwin, Cassell, Wood and Eccles.

2. On the occasion of his visit to Washington, Mr. Lamfalussy will, we understand, inter alia also meet representatives of the IMF and the United States Government. It can be safely assumed that one of the major purposes of his trip to Washington at this time is to inform himself about the policies of the Bush Administration in international economic and monetary matters. In that context, Mr. Lamfalussy will most certainly be interested in an update on World Bank policies and operations as they affect these issues, particularly in such areas as the debt crisis.

Biographic Data

Born in Hungary, April 26, 1929

Belgian citizen

Married, 4 children

Academic education and career:

1949-1953:	University of Loewen, Belgium (degree in economics)
1953-1955:	Research Fellow, Oxford University, Nuffield College, UK (Doctorate in economics)
1961-1962:	Visiting Lecturer, Yale University, US
1965-1985:	Lecturer, then Professor at the University of Loewen, Belgium

Author of many books and articles.

Professional career:

1955-1975:	Banque de Bruxelles -- first as Economist, then as Economic Adviser and Head of the Research Department, as Director and Member of the Executive Committee, and finally as Chairman of the Executive Committee
1975:	Banque Bruxelles-Lambert -- Managing Director and Member of the Executive Committee
1976:	BIS -- Economic Adviser and Head of the Monetary and Economic Department
1985:	BIS -- General Manager

BIS -- The Institution

3. The BIS is a financial institution established by international agreement in 1930. Its major purpose was, and is, to promote cooperation among central banks. The direct reason for its creation was the administration of the financial arrangements made for the restructuring of the German World War I reparations.

4. Since then, the BIS has developed into a forum which plays a useful role in the discussion and coordination of international economic and monetary policy issues. Ten times a year, the Governors of the OECD central banks meet at the BIS to exchange views on these questions, on some occasions also joined by representatives from other central banks. The BIS further serves as a meeting point and secretariat for various groups of central bank experts working on policy and technical aspects of certain international financial issues, and it conducts research in these areas. Together with the OECD, it collects statistical data on capital flows and external indebtedness. The BIS Annual Report is one of the authoritative pronouncements on the state of the world economy and financial system.

5. The BIS also serves as a "central banks' bank", managing a substantial part of the reserves of central banks on their behalf. It has a balance sheet total of about US$80 billion equivalent. It is an active market participant and has regularly made a profit from these operations. Finally, the BIS also serves as agent or trustee for certain operations relating to the European Monetary System, for the private ECU clearing system and certain international governmental loans.

BIS Relations with the World Bank

6. The World Bank has had a long-standing relationship with the BIS. The first World Bank borrowing in a currency other than the US dollar was a Swiss franc private placement with the BIS in 1948. Later, the BIS served as a paying agent for a number of World Bank borrowings from governments, particularly in operations with OPEC countries. The BIS also regularly participates in some of the periodic World Bank bond issues placed with central banks. Moreover, the Bank has in the past held some of its liquid

assets in deposits at the BIS; but we have found such placements less attractive in recent times and thus eliminated them, an action which has been somewhat of a sore point with some BIS officials.

7. I recently visited the BIS to review whether our financial business relations can be revitalized. Areas under consideration are the use of the BIS as a link between the US and the European clearing systems for a possible World Bank US dollar global bond issue or as paying agent for some of our central bank borrowings, as well as certain short-term borrowing and lending transactions for cash management purposes. These initial discussions have been promising; but considerable further detailed work and negotiations will be necessary before the outcome will become clear. (In particular, it is by no means certain at this stage that we will be in a position to resume our practice of holding some of our liquid assets at the BIS. The main obstacle is the comparatively lower yields offered by the BIS, a position which is not unreasonable given their excellent credit standing; but we obviously also have to think of our earnings.)

8. World Bank representatives (FINCOM managers and/or representatives from our European Office in Paris) are regularly attending the BIS Annual Meetings and some of their monthly meetings. Until 1979, the BIS used to be an observer at World Bank/IMF Annual Meetings. At that time, the controversy over the proposed PLO representation led to the elimination of the observer category, except for non-member countries (Switzerland). The BIS officials still deplore this state of affairs and have preferred to stay away from the main sessions of the Annual Meetings (they still are an observer in the Interim Committee), rather than to attend in some private capacity.

Topics of Interest to Mr. Lamfalussy

(a) Mr. Lamfalussy has, for a long time, been among those calling for more forceful action and greater international economic and monetary policy coordination for the purpose of reducing the existing financial imbalances. In that context, he has, *inter alia*, advocated greater efforts to reduce the US budget deficit. His visit to Washington is certainly in part also meant to bring him up to date on the policies of the Bush Administration on this and other international economic and monetary policy issues;

(b) In that context, the LDC debt issue is a problem of particular interest to Mr. Lamfalussy. He was one of the early voices warning about the impending debt crisis, and the BIS has closely followed developments since then. On the occasion of my visit to the BIS, Mr. Lamfalussy indicated that, in his view, there was no plausible scenario in which debtor countries generally could grow out of their debt. According to him there is not enough growth potential for a sufficiently long period which would not result in offsetting interest rate increases. He thinks that growing out of debt may be possible for some countries (e.g., Chile), but not for all debtors. (In discussing debt problems, Mr.Lamfalussy may also bring up the question of Bank-Fund cooperation. There have been some misgivings at the BIS about our Argentina package, reflecting, most likely, at least in part, also the views of some important BIS central bank shareholders and a traditional "central banker's outlook" at the BIS on economic and financial issues.);

(c) Mr. Lamfalussy can be considered as one of the most knowledgeable experts on European financial integration. He is a member of the Delors Committee which has to submit its report on further measures to strengthen financial and monetary cooperation among the EC member countries by the end of April 1989.

HRothenbuhler/diw

Commercial banks

1-45
1/6/89

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: January 6, 1989

To: Mr. Barber Conable

Through: Mr. Ernest Stern

From: Stephen Eccles

Ext.: 72213

Subject: Morgan Stanley Brief

Attached is the briefing note for your meeting with Morgan Stanley on Monday, January 9 at 2:30.

KGL:aml

P-1867

BRIEFING NOTE
MORGAN STANLEY & CO. INC.

MEETING PARTICIPANTS

Mr. Richard B. Fisher, President
Ms. Deborah Anne De Cotis, Managing Director
(Please see attached bios.)

PURPOSE OF MEETING

This meeting is a get-acquainted call. The only material business relationship between the Bank and Morgan Stanley is in the borrowing and investment operations of the Treasurer's complex, as described briefly below. The firm has, from time to time, provided liability management advice to IFC, but no significant business has developed.

Dick Fisher has asked for the meeting with no specific agenda in mind. You can assume that he will be generally familiar with the Bank and with the institution's current priorities as articulated in your Annual Meeting address. Potential topics of discussion could include the extent of investment banks' role in restoring capital flows into LDCs, financial markets' perception of the Bank in the wake of the GCI, trends toward internationalization in investment banks' business plans and the effects of a partial repeal of Glass-Steagall on securities dealers businesses, particularly in low-margin activities like bond underwriting.

THE FIRM

Background:

* Morgan Stanley is one of six investment banking firms in the U.S. who comprise the "bulge bracket" that accounts for over 80% of the fixed income underwriting business in the country. Its approach to this business is as a wholesale house, serving primarily an institutional clientele. It is also one of the two or three leading firms in mergers and acquisitions, a line of business that generates a substantial part of its revenues.

* Morgan Stanley became a publicly-held corporation in 1986. It has $1.35 billion in equity and subordinated liabilities and employs approximately 6,400 people.

* Financial results for CY88 4th quarter are reported to have been excellent. The firm has been consistently profitable during a period of difficulty in the industry.

Business Relationship with IBRD

1. U.S. Dollars

U.S. domestic market. Morgan Stanley has been one of the Bank's rotating leadmanagers for underwritten transactions in the U.S. since the late 1940s. It is second in line, after Salomon Brothers, to leadmanage an issue for the Bank in the future.

Eurodollars/offshore markets. Morgan Stanley is a regular comanager for our eurodollar issues. It leadmanaged a partly-paid 15-year issue for the Bank in FY86. It participated as a comanager for our two Shogun issues in FY86 and FY87.

COLTS. Morgan Stanley joined our FY88 COLTS program as an agent. Their performance was mediocre, accounting for 11% of FY88 trades and 18% of primary agent volume. However, after senior-most Morgan Stanley management held discussions with the Bank following a flagrant overtrading incident, its performance improved. They have set a goal of introducing 1-2 new COLTS buyers to the program each month during FY89. They organized a "Regional Agent Day" event on September 29, 1988, hosting IBRD's newly selected regional agents for an orientation to the MTN market.

Discount notes. Morgan Stanley is not an agent for discount notes.

2. Other Currencies

DM. Morgan Stanley is a comanager in both our domestic and international syndicates.

Yen. Morgan Stanley is a comanager for our Daimyo issues. It has been a comanager for our last two euroYen issues.

ECU. Morgan Stanley is a comanager for our issues.

SwF. Morgan Stanley was a comanager for our most recent two transactions. It has made private placement proposals in Swiss francs.

£. Morgan Stanley is a regular comanager for our eurosterling.

$A. Morgan Stanley was a coleadmanager for the Bank's early euro$A transactions in FY87. Subsequently, as Morgan Stanley deemphasized retail currencies in its business strategy, it was comanager. It declined to participate in our most recent transaction.

3. Swaps

Morgan Stanley is not an approved swap counterparty. They have arranged swaps for the Bank on occasion.

4. Loan Sales

None.

5. Investments

Morgan Stanley had an excellent year on the investment side of the Bank during FY88, as shown in the table below:

FY88 Bond Trading Volume

Currency	Rank	No. Dealers	Volume
U.S. dollars	1	48	8.1
Deutsche mark	1	17	19.1
Dutch guilders	1	13	36.0
French francs	6	14	7.7

Current Issues

* Global bond. Morgan Stanley is one of the firms actively involved in discussions on the feasibility/desirability of a global bond instrument. The instrument would be designed to appeal to international institutional investors, by providing liquidity and the potential for better secondary market trading among a wider pool of investors than conventional Yankee or eurodollar instruments. Morgan Stanley's London staff have been most helpful in clarifying technical aspects of trading and settlement in the eurodollar markets.

* Management aspirations. Morgan Stanley is interested in leading a eurodollar issue for the Bank, if we ever consider moving away from Deutsche Bank.

* DM/Yen. Morgan Stanley is emphasizing Deutsche mark, yen and other hard currencies. This means we will have less occasion to do business with them in FY89 than before we shifted our emphasis towards U.S. dollars.

* ECU. Morgan Stanley has expressed its desire to be awarded a mandate in ECU. FG2 staff believe they are capable.

Contact: Kenneth Lay
x75865

January 6, 1989

RICHARD B. FISHER

Richard B. Fisher, President of Morgan Stanley Group Inc., was born in Philadelphia in 1936. Mr. Fisher received his Bachelor's degree from Princeton University in 1957. Following his graduation from Princeton, Mr. Fisher worked for one year as an Assistant Director of Admissions for the University, and then entered the securities field. In 1960 he returned to school and received his M.B.A. from the Harvard Graduate School of Business Administration in 1962 as a Baker Scholar with High Distinction.

Mr. Fisher joined Morgan Stanley in 1962. He became a Managing Director in 1970 and was elected President effective January 1, 1984. He is a member and Chairman of the firm's Management Committee and before becoming President was the Director of the Capital Markets Division.

Mr. Fisher serves as a member of the Board of Managers and Chairman of the Finance Committee of the Ministers and Missionaries Benefit Board of the American Baptist Churches, and as a trustee of Princeton University, the Carnegie Corporation of New York, The Urban Institute, and the Historic Hudson Valley. Mr. and Mrs. Fisher have three children and live in Brooklyn Heights, New York.

#####

June, 1988

Deborah A. DeCotis

Debbie DeCotis is a Managing Director in the Capital Market Services Department of Morgan Stanley. Debbie graduated from Smith College and Stanford Business School and joined Morgan Stanley in 1978. Debbie is currently responsible for Morgan Stanley's Washington coverage, including the U.S. government agencies and the Federal Government.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 88/11/28 DUE DATE : 00/00/00
LOG NUMBER : 881129002 FROM : K. Inakage
SUBJECT : BANK OF TOKYO: Meeting with Mr. Kashiwagi, Chairman, Tuesday, November 29 at 5:00 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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_________ PLEASE HANDLE
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COMMENTS :M. Haug, J. Volk (FF)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 28, 1988

TO: Mr. B. Conable, EXC
(through Mr. Qureshi)

FROM: Mr. K. Inakage, Vice President, COF

EXTENSION: 78801

SUBJECT: Briefs for meeting with
Bank of Tokyo and Swiss National Bank

We have prepared the attached briefs for your meetings with: Mr. Kashiwagi, Chairman of the Bank of Tokyo Ltd. to be held on November 29 at 5:00 p.m., and Mr. Marcus Lusser, President Governing Board of Banque Nationale Suisse to be held on November 30.

cc: C. Ludvik

P. Vieillescazes

November 16, 1988

Brief for Mr. Conable

Bank of Tokyo
(Meeting with Mr. Kashiwagi, Chairman
November 29, 1988 - 5:00 p.m.)

1. General

At end-March 1988, the Bank of Tokyo (BOT) was the 9th largest city bank in terms of assets less contra accounts -- it is ranked 14th amongst all Japanese commercial banks and has become one of the world's leading banks in the management of and participation in international syndicated loans and other international financial activities.

BoT has a close relationship with the Ministry of Finance and acts as a representative of the government in external financial relations including advisory and agency roles in international debt negotiations; it also places foreign aid loans which the government deems should be subscribed by Japanese financial institutions.

BoT's major susidiaries are:

The Bank of Tokyo Trust Company	New York	99% holding
California First Bank	San Francisco	77% holding
Bank of Tokyo International Ltd.	London	100% holding

Approximately 30% of BOT's shares are held by 10 organizations (banks and insurance companies) such as Meiji Mutual Life Insurance Company (6.7%).

2. Cofinancing

BoT has lent a total of $152.2m under the B-loan program (since its inception) in 21 separate operations with $27.4m provided for the four Hungarian B-loans made in 1985. Recently, BoT participated in the Energy Sector Adjustment loan and the Second Financial Sector Adjustment program for Turkey -- the former participation was for the US$10.3m equivalent and the latter US$7.5m. BoT provided $31.8m (in mixed currencies) under the multi-facility loan to Mexico.

cc: Mr. Michel Bouchet
Mr. K. Inakage

MMathew:juo

YUSUKE KASHIWAGI

Chairman of the Board
of Directors
The Bank of Tokyo, Ltd.

Address Home:	11-16, Nishi-Azabu 1-chome, Minato-ku, Tokyo 106
Address Office:	6-3, Nihombashi Hongokucho 1-chome, Chuo-ku, Tokyo 103
Date of Birth:	October 17, 1917
Place of Birth:	Japan
Married:	Kazuko Sohma
Children:	2 sons and 2 daughters
Education:	Faculty of Law, Tokyo Imperial University (presently The University of Tokyo); graduated in 1941

Professional Career

April 1941	Entered the Ministry of Finance Foreign Exchange Bureau
August 1966	Director General, International Finance Bureau
June 1968	Vice Minister of Finance for International Affairs
June 1971	Resigned from the Ministry of Finance
June 1973	Joined The Bank of Tokyo, Ltd. Elected Deputy President
June 1977	President
June 1982	Chairman of the Board of Directors

11/30
3:30

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 88/11/28 DUE DATE : 00/00/00
LOG NUMBER : 881129001 FROM : D. Roth (thru ES)
SUBJECT : SWISS NATIONAL BANK: Meeting with Dr. Markus Lusser, Wednesday, November 30 at 3:30 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

________ APPROVED
________ PLEASE HANDLE
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________ AS WE DISCUSSED
________ RETURN TO ________

COMMENTS :M. Haug, J. Volk (FF)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 28, 1988

TO: Mr. Barber B. Conable, President

THROUGH: Mr. Ernest Stern, FINSV ES.

FROM: Donald C. Roth, TREVP

SUBJECT: **Briefing Notes for the Upcoming Visit of Dr. Markus Lusser, President of Swiss National Bank**

1. This is esentially a courtesy call. The Swiss National Bank is a highly influential institution as is its President. There are no issues relating to World Bank operations or relationships that you need to raise and we are unaware of any that Dr. Lusser plans to bring up. However, topics on which Dr. Lusser's views might be of particular interest are:

a) The evolution of European capital markets by 1992.

b) The interest of Swiss banks in the menu of debt reduction proposals for the highly indebted countries; and the possible role of the authorities.

c) The likely impact on the volume and direction of world trade, particularly for the LDCs as the US reduces its trade deficit.

A. Dr. Markus Lusser - Biography

2. Markus Lusser was born and raised in the mountainous, strongly Catholic canton of Uri, the home of William Tell and one of the founding cantons of the modern-day Swiss confederacy. Although interested in history and Greek, Dr. Lusser followed his father into the legal field, studying at the University of Berne and the Faculte de Droit in Paris. Upon graduation, he served in the government attorney's office in Uri and in the neighboring canton of Schwyz.

3. In 1959, Lusser accepted a job with the Basel-based Bankers' Association as secretary general. He rose to deputy director, then, in 1976, to director, reporting to the Chairman. Through most of the 1960s and 1970s, Lusser's work centered on resolving the friction between the cantonal banks and the universal banks as they jockeyed for territory. Later, he worked closely with the Swiss National Bank (SNB) and its then president, Mr. Leutwiler, on the foreign exchange activities of Swiss Banks in the aftermath of the collapse of the Bretton Woods accord and the flotation of the Swiss franc.

4. It was in the wake of the 1977 scandal over money laundering at Credit Suisse's Chiasso branch, a serious crisis shaking confidence in the whole financial sector, Dr. Lusser was one of the three formulators of the Convention du Diligence, the groundbreaking requirement that Swiss bankers know their customers. The convention has stood up well, and amendments in 1982 and 1987 have strengthened it still further.

5. Dr. Lusser expected to stay with the Bankers Association for no more than two years but instead stayed for twenty. His move to the SNB came about when Leutwiler asked Lusser if he'd be interested in filling a vacancy on the three-member bank board.

6. Dr. Lusser has a deep commitment to free markets and monetarism based on the views of the Chicago school of economics, particularly to the views of Milton Friedman and Swiss monetarist Karl Brunner. Lusser believes that the best markets are free markets, and that once a protected market is opened up, all parties including banks benefit.

7. His recent remarks at the Swiss Banking Congress in Montreux and the International Banking Symposium in Lugano confirm his strong commitment to free market and competition. In particular, in his Lugano speech he mentioned the successful efforts of the EMS and acknowledged that Switzerland's advantage in stability (interest and exchange rate) will diminish to the extent that EC countries make further progress in achieving and maintaining stable monetary conditions. In his view, the implication for the Swiss financial center is that in the future Swiss banks will have to build their international competitiveness more firmly on the basis of their their own performance as portfolio managers.

8. Dr. Lusser believes that institutional investors have become far more important than personal customers: "the change in customer composition is an important element in the current restructuring of the financial markets." The concerns of institutional investors are very different from those of personal customers. While the latter are concerned with political stability and discretion, the former are concerned with important factors such as market transparency, transaction costs and the range of financial instruments offered: "The Swiss banks must prepare themselves in all these areas if they do not want to fall behind in the fierce competition for institutional customers."

B. The World Bank Swiss Franc Operation

Background

9. As of June 30, 1988 the Bank's total Swiss franc (SwF) outstanding market borrowings amounted to SwF 17.5 billion (US$11.6 billion) with an average maturity of 4.2 years and an average cost of 5.8%. In addition, outstanding SwF swaps amount to SwF 9.8 billion (US$6.5 billion). On an after swap basis, outstanding SwF liabilities represent about 22% of the Bank's total loan portfolio. The Bank's annual borrowing during the last five fiscal years are summarized below.

Borrowing Strategy

10. There has been a dramatic change in our SwF borrowing strategy during the past two years with (i) a 57% reduction in total SwF funding mobilized and (ii) 80% reduction in the volume of SwF raised through market borrowing operations. The objective has been to make greater use of the more cost-effective sources of SwF -- i.e. swaps -- while at the same time creating scarcity of IBRD obligations in the interest of improving the Bank's image, the terms it secures through new borrowings and its long-term funding capacity in that market.

Table I: WORLD BANK BORROWINGS IN SWISS FRANCS FY 1982-1988 (SwF millions)

	1982	1983	1984	1985	1986	1987	1988	(planned) 1989
Total before Swaps	2478	3130	4077	4724	4163	2214	1600	1600
Swaps	1097	2366	1901	2212	2651	1333	1345	0
Total after Swaps	3575	5496	5978	6936	6814	3547	2945	1600
SwF Component of IBRD Borrowing Program %	-	24	26	26	29.3	24.4	20	14.5

11. The reduced market borrowings combined with prepayments of callable issues, has resulted in a net flow from the Bank to the Swiss capital market of SwF 1.9 billion during the past 2 years. Most market partners agree that the strategy has paid-off and the market response to our recent operations have been very encouraging and have reinforced the perception that IBRD bonds now have scarcity value.

12. As you know, we launched our short-term SwF borrowing program on October 14, 1988. It has reached an outstanding amount of about SwF 70 million with an average maturity of 3 months and an average yield of 3/16% below SwF LIBID.

Market Developments

13. Since last year, the rigid syndicate structure in Switzerland has been shaken-up by a number of developments that have had major impacts on operational procedures governing the syndication of new issues:

- Since August 1987, foreign banks are allowed to lead manage transactions with the Big Syndicate for their parent companies (Deutsche bank lead managed the first such transaction).

- Since January 1988, the members of the Big Syndicate are no longer required to participate in all transactions lead managed by the syndicate and have the liberty to lead issues for new names or decline any transaction.

- The three minor syndicates have consolidated their position and become more aggressive. Since last June more than 40 issues have been lead managed outside the Big Syndicate as compared to 10-15 per year, on average, in the past.

14. In addition, the practice of providing investors reallowances, thereby effectively reducing underwriting commissions, has been legitimized.

RDGraffam/JEhsani/ca

November 16, 1988

Brief for Mr. Conable

Banque Nationale Suisse (Swiss National Bank)
(Meeting with Mr. Marcus Lusser, President Governing Board
November 30, 1988)

1. General

Dr. Markus Lusser, president of the Board of Directors succeeded Pierre Languetin (now retired) in June. He was born in 1931 is married and has one son. He is a lawyer. The Swiss National Bank (founded in 1906) is the Swiss Central Bank, although a joint-stock company its shares are still traded in the Swiss stock exchanges. Major shareholders are the cantons, commercial banks and various other public bodies. There are 5,000 private shareholders who own 41% of its paid-up capital. Although the Swiss confederation holds no shares, the Federal Council has statutory powers which enables it to exert considerable influence over the National Bank.

2. Cofinancing

Swiss cofinancing from commercial banks under the Bank's B-loan program (since its inception), amounts to US$98.3m (or equivalent) involving seventeen separate participations from Swiss commercial banks.

3. Consultant Trust Fund

In April 1985, Switzerland established a consultant trust fund of SwF600,000 (US$275,000 equivalent) to be used by the Bank to cover the fees of Swiss consultants recruited for short-term operational assignments to IDA countries. In April 1987, Switzerland replenished the trust fund with another SwF600,000. Switzerland after Italy was the second country to establish such a facility with the Bank.

cc: Mr. Michel Bouchet
Mr. K. Inakage

MMathew:juo

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 88/10/19 DUE DATE : 00/00/00
LOG NUMBER : 881019003 FROM : Vieillescazes
SUBJECT : BRIEFING: For meeting with Mr. Franz Galliker, Chairman of the Board of Swiss Bank Corp. on Mon. Oct. 24, 1988 at 2:15 p.m.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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

COMMENTS :cc: Mrs. Haug, JV (follow file)

Briefing Note for Mr. Barber Conable on the Visit to Washington of Mr. Franz Galliker, Chairman of the Board of Swiss Bank Corporation

Background

Swiss Bank Corporation ("SBC") is a private commercial and investment bank founded in Basle, Switzerland in 1872 by incorporation of a loose association of private bankers formed in 1850 under the name of "Bankverein" ("Bank Association").

It is the third largest bank in Switzerland after Union Bank of Switzerland and Credit Suisse.

As it is the case for most private institutions in Switzerland, the names of the principal shareholders are not disclosed. However, the Board of Directors of SBC composed of 22 members represents a wide spectrum of the Swiss industrial and financial establishment (Nestle, Asea Brown Boveri, Swissair, Swiss Aluminium Ltd., Sulzer Brothers Ltd., Schindler Holding s.a., Bulher Brothers Ltd., etc.). It is currently chaired by Mr. Franz Galliker.

SBC is managed by an Executive Board composed of 15 members: 11 General managers (including the President of the Executive Board, Walter G.Frehner) and 4 Deputy General managers.

SBC operates a network of 220 branches, including 13 branches abroad, and has representatives in some 22 countries. SBC also owns or controls more than 50 non-consolidated banking and financial subsidiaries worldwide and thus has of a very strong placement power both in Switzerland and abroad. SBC has a staff of 16,828.

Non-consolidated financial highlights as of December 31 were as follows:

(currency: US$/denomination: million)

	1986	1987
- Balance Sheet Total	84,896	114,390.
- Capital and Reserves	5,220	6,855.
- Total Customers' Deposits	56,538	71,930.
- Net Income	415	510.

Business Relationship with IBRD (Operations)

Between 1976 and 1988, SBC has participated in 6 different cofinancing operations with the Bank for a total participation amount of US$41.1 million. This includes 3 traditional cofinancings ("parallel cofinancings") for Brazil, Yugoslavia and Honduras in 1979-1980 and 3 B-Loans for Hungary, Chile and Mexico between 1985 and 1987.

Business Relationship with IBRD (Finance) is contained in the attached memorandum.

Attachment

Cleared with and cc: Mr. T. Baudon, SVPOP

Swiss Bank Corporation

Background

1. SBC is the third largest bank in Switzerland (by asset size and number of branches). Since June 1987, SBC has lead managed SwF 8.0 billion or 19.8% of international issues brought to the Swiss capital market, taking the third position, after UBS and Credit Suisse, for leading foreign issues.

2. On April 1988, SBC launched the first short-term SwF borrowing program on behalf of Unilever. The program is SwF denominated and offered for 3 and 6 month maturities at attractive terms of LIBID less 20 b.p. So far an outstanding amount of SwF 100 million has been raised.

Business Relationship with IBRD

3. So far, SBC has led 20 public issues, 16 private placements and 8 loans for a total amount of SwF 7,510 million, of which SwF 4,121 million is presently outstanding.

4. Under the rotation system, SBC will be our next lead manager for a private placement.

5. SBC was the first bank in Switzerland to approach the Bank with a proposal to launch a short-term SwF program. As you are aware, the program is patterned after similar transactions done by Unilever whereby "payment rights", a new form of debt obligations exempt from stamp on duty on securities (see also currency brief), are issued on a book entry basis at attractive rates of interest of about SwF LIBOR less 25-30 b.p. SBC would be, initially, our exclusive agent for the program which would be offered for maturities of up to one year for an outstanding amount not to exceed SwF 200 million.

6. SBC is an approved counterparty for swaps. So far, SBC/SBCF have offered the Bank 11 swap transactions for a total outstanding amount of US$338.7 million equivalent.

7. Through SBC Frankfurt, SBC is a co-manager in both German syndicates: the traditional syndicate and the international syndicate.

8. In addition to acting as paying agent for our SwF issues in Switzerland, SBC is also the paying agent for 2-year SwF central bank issues and for some SwF SAMA issues.

Current Issues

9. We should express our appreciation for their effort to put together the short-term SwF program and accomodating to the maximum extent possible our needs.

10. A mentioned in UBS, CS and the Swiss Franc currency briefs, SBC might raise the issue of competing with offers coming outside of the Big syndicate for private placements and syndicated loans. Should they raise this issue we should state our official position described in para 8 of the currency brief.

SBCI-Swiss Bank Corporation International

Business Relationship with IBRD

1. DM: SBC Frankfurt acts for SBC in this market (see SBC brief).

2. Euro-Dollar: SBCI is a regular co-manager for our Euro-Dollar issues. Recently, they provided a Euro-Dollar proposal incorporating an interest rate cap mechanism to produce cost savings for the Bank.

3. Euro-Canadian dollar: They were co-lead in the first 2 Euro-C$ and only co-managed the most recent two issues. No complaints. They have proposed swap linked proposals and have potential to lead manage in this market.

4. Other: SBCI is also a co-manager for Euro-Yen, Guilders, Danish Krona, A$, NOK, ECU, Eurolira, Finnish Markka and Euro-Sterling issues.

5. Investment

FY88 Bond Trading

Currency	Rank	No. Dealers	% Volume
Euro DNs	14	48	2

6. Swap (see SBC)

7. Short-Term US dollar: The Bank recently approached SBCI for a short-term US dollar denominated program in the fiduciary deposits sector and is currently pursuing its discussion on the terms of such a program. SBCI has so far proposed terms that are in line with EDC's program recently launched by Credit Suisse (30-40 b.p. above US treasuries for maturities up to one year) and await the Bank's reaction on the proposal. Following SBC, Credit Suisse was the second big bank, to launch a short-term funding program for a prime foreign name (EDC of Canada) in Switzerland. The program is US dollar denominated, offered at discount for broken short maturities and has so far raised about US$60 million at attractive terms of 30-40 b.p. above US treasuries.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 27, 1988

TO: Mr. Barber B. Conable
Through: Mr. Moeen A. Qureshi

FROM: David Bock

EXTENSION: 72942

SUBJECT: **Meeting with Mr. C.E. Ritchie, Bank of Nova Scotia**

1. Attached is a memorandum on Mr. Ritchie's proposal, plus a letter Mr. Ritchie wrote to Mr. Camdessus. Both will give you a good sense of what his thinking is on the debt issue.

2. Scotiabank have a reputation as "difficult" in the debt negotiations; this emanates directly from the Chairman's office and is based on the fact that Mr. Ritchie wants to see a new form of private/official partnership to replace the concerted new money approach.

3. Mr. Ritchie has been in Mexico recently to take stock of the situation post-election. You may wish to compare notes with him. Also, he and his staff are of the view that there is a "window of opportunity" to change the debt strategy which will close when the majority of banks have succeeded in raising their levels of provisions to the point that they are indifferent about whether the LDC debt problem works out or not. Note that Toronto Dominion and CIBC are already in this position.

4. Mr. Ritchie is also concerned about the opportunity cost to the LDCs (and the industrial countries) of letting the debt problem drag on. The banking system may be better off, but the real economy is not.

cc: Mr. Stanton, Ms. Haug

DRBock:mac

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

(Dictated by Mr. Bock and sent in his absence.)

DATE: May 25, 1988 STRICTLY CONFIDENTIAL

TO: Mr. Moeen A. Qureshi

FROM: David R. Bock

EXTENSION: 72942

SUBJECT: Scotiabank and American Express Proposals

1. Attached is a recent note by Peter Nicholson, SVP Scotiabank, that adapts the Scotiabank LDC debt insurance scheme to Jim Robinson's I2D2 proposal. I thought you should see it, as I know that Robinson's staff are working on a revised version of I2D2 and expect them to incorporate something quite close to what Nicholson suggests, i.e. a bank-financed scheme geared around reduced interest rates rather than a government-sponsored securitization program. Also: (a) this shows how thinking about new approaches is developing within the banking community; and (b) this may help offset the notion that Bank of America's proposal for Costa Rica is uniquely interesting to BofA.

2. Nicholson's note also includes a very perceptive pros/cons analysis of a modified Robinson scheme vs. the status quo approach. Nicholson makes clear, I think, that the dispute between the two positions is a matter of judgment as to whether the debt problem is, or can be made to be, self-correcting through a combination of pressure on the countries to adjust and further concerted new money packages. The dispute also reflects an important difference in philosophy: the status quo advocates feel that it is vital to establish once and for all that the only acceptable way to resolve overindebtedness problems is through adjustment combined with service of claims at something close to market rates of interest. For this reason, the status quo must necessarily rule out debt relief until at least some of the major debtors turn the corner the way Turkey did earlier. Scotiabank and others like them, on the other hand, are prepared to acknowledge that the debt-increasing approach needs to be replaced.

3. Apart from the risk cited by Nicholson that this may not work (see page 7 of the attachment), there is the additional question of what happens to the smaller countries such as Costa Rica where it clearly has not, and will not, work. Here I suppose the "status quo" answer is that they should be simply allowed to stay in arrears until the philosophical issue is settled with the major debtors, when a "mopping up" exercise a la Bolivia should be put together.

4. Nicholson also points out that the key issue that has to be addressed in the development of a concessional interest rate (rather than new money) approach is that of discriminating among borrowers. I agree with this point; the technical issues relating to concessional rates can be dealt with through a variety of techniques. The real question is how to

preserve a case-by-case approach, i.e., how to give rate concessions to Costa Rica but not Brazil. If a satisfactory answer to this question can be found, the debt strategy could begin to move to an alternative approach to financial relief that would preserve conditionality and creditor-debtor relationships and yet have a better chance of restoring growth and development.

5. One final comment: there remains a serious danger that the status quo will deteriorate into a 1930s-style solution. Not in the sense of a collapse of international trade and finance, of course, but a slide into protracted defaults and payment arrears. Indeed, the phase of forward-looking financing for adjustment has probably ended; what we are now seeing is various degrees of retroactive financing of arrears. Perhaps a case-by-case resort to arrears reflecting different country circumstances can in fact be kept in control. It is, however, messy and may well mean a prolonged period before the debt problems of Latin America and Africa are resolved.

6. In this context, I have also attached a recent paper by the New York Fed staff on the defaults of the 1930s--it is well worth reading.

cc: Messrs. Shihata
Wood
Fischer
Stanton
Dubey
Toft
Flannery
Rajasingham

DBock/mjw

May 3, 1988

COMBINING THE AMEX AND BNS PROPOSALS RE LDC DEBT

The International Institute of Debt and Development (I2D2) proposed by American Express could be modified to incorporate a number of the attractive features of the insurance-based plan developed by The Bank of Nova Scotia. Specifically, a revamped I2D2 concept (here denoted I2D2*) could be based on the following. (The proposal contemplates the participation of lenders other than just commercial banks though the principles would be unaffected if only banks joined in.)

1. <u>Creditor Ownership</u>: I2D2* would be owned by the participating lenders and would be dedicated to managing a negotiated work-out of the developing country debt problem.

2. <u>Capitalization Proportional to Risk</u>: Participating lenders would contribute initial equity to I2D2* in proportion to some agreed measure of the riskiness of their individual LDC portfolios. Total capitalization of I2D2* would be negotiated but would have to be sufficient to reduce the contingent liability of governments (see item 8 below) to an acceptable level.

3. <u>Preferred and Common Equity</u>: The equity provided by participating lenders would be divided between common and preferred shares in a proportion to be negotiated. The preferred shares might pay a dividend of, e.g., LIBOR. (Alternatively, only a small portion of the required equity might actually be "paid in" with the remainder callable in the event that the cash flow of I2D2* was insufficient to meet its obligations.)

4. <u>LDC Medium- and Long-Term Loans Purchased at Face Value</u>: I2D2* would purchase, <u>at face value</u>, the existing medium- to longer-term LDC loans of participating lenders. (Trade and inter-bank credit should not normally be included under this proposal but rather should be treated on standard commercial terms.)

5. <u>I2D2* Issues Long-Term Securities in Exchange for LDC Debt</u>: I2D2* would acquire the LDC portfolios of its shareholders in exchange for long-term securities -- e.g., either perpetual bonds (consols) or perhaps 30-year bonds collateralized by zero coupon securities of industrial country governments.

6. <u>Negotiated Concessions</u>: I2D2* would negotiate the terms of LDC debt service based on: (1) "ability to pay" criteria; and (2) policy reform measures to be undertaken by the debtor governments. These terms would be worked out in consultation involving the World Bank/IMF group as well as the debtor countries. Concessions by I2D2* would typically take the form of (temporary) interest rate reductions. (The foregone interest would <u>not</u> be capitalized, though consideration should be given to accumulating at least part of the forgiven portion in local currency obligations, perhaps earmarked for re-investment subject to certain conditions.)

7. <u>Cost of Concessions Passed Directly to Lenders</u>: The securities issued by I2D2* in payment for the LDC loan portfolios of the participating lenders would bear a coupon approximately equal to the interest rate negotiated between I2D2* and each debtor country (as in item 6 above) on a case-by-case basis. Participating lenders would thus bear directly the cost of any interest concessions negotiated on their behalf by I2D2*. Similarly, if a country recovered sufficiently, market rates of interest would be passed on to the original lenders through an increased coupon on the associated securities.

8. <u>Creditor Country Governments Provide Contingent Back-up of I2D2*</u>: Creditor country governments would undertake to ultimately back I2D2* to ensure timely payment of interest on the securities issued in exchange for the LDC loans of participating lenders. (Governments would be under no obligation to ensure that I2D2 was

able to pay dividends on either its preferred or common stock.) The contingent backing of governments would only be called if the equity of I2D2* were exhausted and if revenues from the portfolio of I2D2* were insufficient to service its liabilities. The apportionment of contingent liability among governments should probably mirror the shares of I2D2* equity contributed by lenders based in each country. (The institutional mechanism might be co-ordinated through the IMF.)

9. New Money: Regarding new money for LDCs: longer-term lending, including balance of payments finance, would come from the World Bank/IMF group until a particular country recovered sufficient creditworthiness to tap the international securities markets. Banks would be expected to provide short-term, revolving credit on a normal commercial basis. (Note that existing lenders would, in effect, be providing the economic equivalent of new money by agreeing to interest rate concessions. The reduced cash flow burden would relieve pressure to run large merchandise account surpluses or would make room for taking on some new debt as contemplated in item 8 above.)

10. Organization of I2D2*: The I2D2* would retain its own professional staff and would be governed by a board of directors representing the participating lenders. The institution should be incorporated in a tax-free jurisdiction to maximize the growth of its retained funds.

May 3, 1988

LDC DEBT: STATUS QUO VS. THE BEST ALTERNATIVE

The orthodox approach to the debt problem has been based on involuntary lending to bridge a debtor country from one payments crisis to another and thus to buy time in the hope that: (a) the LDCs may grow out of their problem or, at least; (b) the exposure of banks (net of reserves) relative to capital will diminish to acceptable proportions. The pros and cons of this approach are compared below with an alternative which combines features of the Amex and BNS proposals.

The Status Quo

Pro

1. Procedures are already in place and therefore workable at least for the time being.

2. Buys time while level of exposure relative to financial system capital diminishes.

3. A reactive approach which only responds to the minimum extent required on a case-by-case basis. (This is efficient if the system doesn't come apart before the problem can be absorbed.)

4. Keeps LDC governments under constant heavy tension (perhaps too heavy) to implement policy reforms.

5. Seen by many banks as the least bad alternative particularly since most LDC loans, net of reserves, are high yielding assets so long as interest continues to be paid on the gross principal.

Con

6. Fails to generate capital inflows to the LDCs (and provides essentially no relief on interest obligations.) Thus, the major assumption of the Baker Initiative -- i.e., that LDCs will receive sufficient external capital to enable them to resume strong growth -- is not being met.

7. Leaves financial system under a cloud of uncertainty, particularly serious for a number of large, heavily exposed banks. Tendency for banking system to polarize in two tiers -- those that can reserve aggressively and those that cannot while still preserving adequate capital. This is destabilizing for the system as a whole.

8. New money packages are increasingly difficult to negotiate so the mechanics of the orthodox approach may become unworkable.

9. Exports to LDCs have stagnated.

10. Political tensions are continuous.

11. Demoralizes LDCs who see no light at the end of the tunnel. Result could be even greater capital flight and fiscal irresponsibility.

An Alternative -- I2D2§

Pro

12. Offers meaningful relief for the LDC economies to enable them to resume strong growth. (Banks' contribution would not be through new sovereign lending but rather through restructuring existing debt service.)

13. Substantially eliminates the uncertainty caused by the LDC debt overhang.

§The model assumed here is a modification of I2D2 to incorporate some features of the BNS proposal. The modified version will be denoted I2D2*.

14. Uses government contingent backup as the key factor in re-establishing confidence in banks. But the liability actually undertaken by governments would, for practical purposes, be very slight since it would be invoked only if the interest concessions proved insufficient and the equity of I2D2* were exhausted -- i.e., lenders take the first hit.

15. Avoids need for banks to take an immediate further write-down of loan principal. In fact, bank capital would be strengthened to the extent that existing reserves exceeded the equity investment in I2D2*.

16. Subjects all banks, in effect, to a common reserving policy since the equity contributions to I2D2* (determined by formula) would replace the need for reserves. (Initially, the equity would probably be carried at a nominal amount so the net change in the balance sheet of the lender would depend on the size of existing reserves relative to the required equity contribution to I2D2*.)

17. Provides leverage to enforce policy reform in the LDCs -- i.e., all <u>sanctions</u> that are presently available (e.g., refusal to grant new credit) would still be available but there would also be <u>rewards</u> through cash relief and room for limited new borrowing.

18. Avoids difficulty of arranging new money packages with banks since all banks would automatically contribute by having to accept negotiated interest concessions. This eliminates the free-rider problem of the status quo where banks increasingly opt out of new money packages.

<u>Con</u>

19. Terms of I2D2* would be difficult to negotiate given the great diversity of interests among both banks and governments.

20. It is difficult to calculate objectively the appropriate concessions for debtors. There would be political pressure from LDCs to move to a lowest common denominator. Relatively disciplined countries -- e.g., Colombia, Chile -- would resent the granting of larger concessions to countries in worse shape, frequently due to their own irresponsibility.

An incentive to improve must be retained, notwithstanding that as a country's circumstances moderate, the concessions granted by I2D2* should be reduced.

21. Requires banks to give up a portion of interest cashflow. Beyond some point (which will be different for different banks) a bank would prefer to take its chances with the status quo rather than to grant a large concession. The question is whether enough banks would be prepared to grant concessions sufficient to make a significant difference in the economic prospects of the LDCs.

22. Poses potentially serious legal obstacles (related to joint lending contracts) if certain lenders are unprepared to go along with the concessions negotiated by I2D2*.

23. Faces stiff political opposition (as does any alternative to the status quo) particularly in the US and the UK.

Assessment

The substantive issues -- as opposed to the political and rhetorical issues -- boil down to a judgement call. Those who propose alternatives to the status quo believe: (a) that the problem of the LDCs is not self-correcting since they cannot mobilize sufficient capital to restore strong growth; (b) that the risk of recession and/or a sustained rise in interest rates is sufficiently great that it is very unlikely that the banking system as a whole will be able to fortify its capital sufficiently before the LDC problem creates an acute crisis of confidence; and (c) that there are practical alternatives to the status quo which, given a jolt of political energy, could make everyone better off.

The position of those who defend the status quo, when all rhetoric is set aside, is based essentially on the following arguments:

1. The fundamental economic problem of the LDCs is self-correcting given reasonably anticipated prospects for the world economy and a continuation of policy reforms. Reference is made

to the return to the fold of Brazil and to the disciplined performance of, e.g., Chile and Colombia. (The Volcker/Cline view.)

2. The endorsement of <u>any</u> comprehensive approach by creditor banks and governments would generate intense political pressure from the LDCs as a group to grant uniform concessions that would be much greater than necessary to deal with the problem -- the lowest common denominator problem. LDC governments would conclude that the creditors had lost their nerve and were on the run. It is feared that the process could degenerate into an intractable negotiation which would not only pit debtors against creditors but would also divide creditor governments and banks within and among themselves. The issues could become so politicized that practical day-to-day co-operation was impossible. As an ironic result, the effort to avoid a crisis could end up triggering one.

3. Intervention by governments in support of the banks, either directly or indirectly, is viewed negatively by politicians who believe that any comprehensive (and therefore <u>high profile</u>) approach to the debt problem will inevitably be construed as a bank bail-out. (The fact that the status quo exposes governments to huge opportunity costs in the form of potentially foregone taxes is not perceived as a bail-out and therefore it has not seriously concerned many politicians.)

4. Some banks oppose any alternative to the status quo which would involve governments, even contingently, because they believe this inevitably invites government interference in their business. There is also a concern on the part of some large banks that a scheme involving the takeover of existing LDC debt by an institution would split the relationship between banker and customer in a number of potentially important countries (e.g., Brazil, Mexico). These banks would rather take their chances with the status quo than to risk interference in their business.

5. All banks are reluctant to give up the high yields provided by heavily reserved LDC loans. They will be chary of any process which might lead to concessions so long as they believe that the status quo strategy has a decent chance of holding up.

6. Many government officials and bankers take heart from the significant and steady reduction in the level of net LDC exposure to bank capital. A number of banks believe that the problem is already substantially behind them. They put little credence in warnings that many large banks are still dangerously exposed (and will be for some time to come) and that a sudden loss of confidence in these banks could severely destabilize the entire financial system. Some banks may even see competitive advantages in a further polarization of the industry into those which could weather an LDC crisis and those which could not. These banks would suspiciously view alternatives to the status quo as schemes to bail-out the competition.

7. European banks, particularly those on the continent which are already very well reserved, are inclined to see the LDC problem today as a US problem, both in its political and in its commercial dimensions. Governments and banks in these countries would be skeptical of any scheme which appeared designed to bail-out the US.

8. Finally, there are those who support the status quo because they believe it is the only <u>feasible</u> way to manage the debt problem despite its imperfections. They believe, for many of the reasons cited above, that it would be impossible to negotiate any alternative proposal.

<u>Observations on Tactics</u>

The strength of the foregoing arguments must be acknowledged. The central weakness of this position -- apart from its total neglect of the cost of the LDC problem in human, political and trade terms -- is that its rationale disappears completely if one is convinced that the present course can't buy enough time to bring the LDC problem under control before world macroeconomic conditions trigger a crisis. Since: (a) the scale of the potential problem is so large; and (b) confidence in banks can evaporate so rapidly and with completely unpredictable consequences for the financial system, it would seem reckless to wait for a crisis before trying to correct the problem. But it is quite clear that there is no possibility of negotiating an alternative to the status quo without an act of great statesmanship from the G-7 countries and in particular from the United States. In view of the arguments outlined above in support of the status quo, it is obvious that a viable alternative will not emerge from any "politics as usual" approach. There is far too much cynicism for that.

Meanwhile, it is important that efforts be continued to design alternatives to the orthodox debt strategy which to the greatest possible degree answer the objections of those who defend the status quo. It is also possible that the Amex-Scotiabank framework (i.e., the modified I2D2) could be implemented first in one or a small number of countries and possibly involving the banks and governments of a limited number of creditor countries -- e.g., US, Canada and Japan.

It is essential to dispel a number of misrepresentations which defenders of the status quo attach to any alternative proposal, including I2D2*. It will be particularly important to stress that I2D2*:

(1) does not purport to be a quick and painless solution to the debt problem (Comprehensive schemes are typically dismissed as misguided attempts to instantly solve a problem where obviously no simple solution exists.);

(2) involves a "case-by-case" approach in that the concessions and disciplines are negotiated and tailored individually with each country (Comprehensive solutions are always criticized as making the unrealistic assumption that all countries can be treated equally. I2D2* makes no such assumption.);

(3) is not a bail-out of the banks (The contingent exposure of governments depends on the depth of up-front interest concessions

granted by banks and on the amount of equity contributed by lenders to I2D2*.);

(4) affords more leverage to enforce policy discipline on LDC governments than is now the case (This is because new short-term credit can always still be withheld by banks whereas I2D2* provides a positive incentive to LDCs by offering hope for recovery.)

It should be stressed that if the optimists are right and the LDCs are able to recover without extraordinary measures then the I2D2* approach: (a) incurs no liability for governments; and (b) leaves banks with fully performing assets, having at worst given up some interest flows during a recovery period. Thus there is essentially no downside in I2D2*.

But if the optimists are wrong, some scheme along the lines of I2D2* is needed and if established now may be able to avert a crisis which otherwise could be uncontrollable.

Perhaps most important from a political standpoint, I2D2* should be characterized as the only effective instrument with which to implement the Baker Initiative. In fact, I2D2* was designed specifically to overcome the "new money" problem which has proved to be the Achilles heel of Mr. Baker's original proposal. The I2D2* can negotiate the concessions required to permit the LDCs to grow out of their bind without increasing the exposure of commercial banks (and worsening the debt load of the LDCs). A key advantage is that once restructured interest payments have been negotiated by I2D2 all creditors to the particular country must make their contribution through a reduced stream of interest income until the country recovers sufficiently. Thus, no bank can opt out as is now the case with new money deals. Participation in I2D2* would be voluntary -- and thus the plan is "market based" -- but those banks which opted out would still receive the negotiated (lower) rate of interest and would fail to have the assurance of interest and principal that is embodied in the I2D2* concept and backed up by governments. Thus, the incentive to join would be powerful.

THE BANK OF NOVA SCOTIA
GENERAL OFFICE
44 KING STREET WEST, TORONTO, ONTARIO, CANADA M5H 1H1

Scotiabank

C. E. RITCHIE
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

April 7, 1988

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street
Washington, DC 20431

Dear Mr. Camdessus:

I read with a great deal of interest the text of your address on LDC debt strategy in Zurich, March 8th. You have presented probably the most authoritative and up-to-date case for continuation of what might be called the orthodox approach to LDC debt -- i.e., the strategy which has evolved from Secretary Baker's 1985 initiative.

We at The Bank of Nova Scotia have a very different view as to what is required to manage the debt problem. We believe there are alternatives to the present approach which would leave everyone -- debtor countries, banks and creditor governments -- better off. Some material outlining our specific thoughts is attached. The purpose of this letter is to point out, with reference to a number of points made in your Zurich speech, the reasons why we believe the orthodox debt strategy is inadequate and, in our view, even logically incoherent.

The Current Situation

To begin; where has the orthodox approach led us to date? You have acknowledged that the strategy has been "less successful in two major objectives: reviving economic growth in the indebted countries and restoring normal debtor- creditor relations." This is despite declining nominal interest rates and the longest sustained global expansion on record.

The one achievement you have cited is that a banking crisis has been avoided and systemic risk has been diminished. It is true that the ratio of net LDC exposure to bank capital has declined steadily over the past five years, in our case to 112% of common equity today from 265% in 1983. But the exposure of the majority of major international banks is still dangerously high and will remain so for a long time to come. For a number of the largest US money centre banks there is really no light at the end of the tunnel. And even those with relatively less exposure are not secure since further reductions of capital on the order of 25% or 30% could make it very difficult for a bank to continue to attract deposits at a cost which permitted it to remain viable.

The market's perception of the adequacy of bank capital has never been more important than it is in today's world of novel risks and financial volatility.

Thus, while systemic risk as measured by debt to capital has been trending down, it is still well above potentially lethal levels. Furthermore; the global economic outlook has become less optimistic if only because we cannot avoid indefinitely the recessionary phase of the cycle. When account is further taken of global financial imbalances, the net result is that systemic threats might now be greater, not less, than they were a few years ago. It is also important to note that the ratio of LDC debt to equity on bank balance sheets has been diminishing because only minimal new lending has taken place. Yet, it is a fundamental premise of the orthodox strategy that this latter circumstance should be reversed.

Combining the foregoing comments with your further observations that -- (a) many heavily indebted LDCs have had no alternative but to channel a very significant proportion of output gains into the adjustment of their balance of payments, rather than into development; and (b) the debt strategy continues to evolve with participants increasingly recognizing that the payment difficulties of a number of debtor countries reflect more than temporary liquidity problems -- one is hard-pressed to find reasons to believe that the orthodox debt strategy is leading us out of the swamp.

<u>The Problem of New Money</u>

The central assumption of the prevailing strategy -- and the original tenet of the Baker initiative -- is that commercial banks should reward good behaviour by debtor country governments with ample supplies of new credit. You state that it would be "essential for commercial banks to agree to provide financing that is both adequate in amount and longer in maturity and for the burden associated with assembling bank financing packages to be eased. ...It is important that private creditors respond creatively and imaginatively to the need of adjusting countries for new money..."

We foresaw at the time of Mr. Baker's speech in 1985 that commercial banks would be very reluctant to extend new loans beyond the minimum needed to assure continued debt service. Events have proven us right. It is puzzling that advocates of the orthodox approach continue to place faith in the notion that there can be any significant <u>spontaneous</u> new bank lending to the indebted countries.

The logical incoherence of the orthodox strategy is nowhere more evident than when private creditors are called upon, in the same breath, to provide new money as well as new initiatives -- e.g., related to the "menu of options" -- that "will need to be market-based and entered into voluntarily by a debtor and its creditors." Regarding new money, the reluctance of commercial banks is the response one would naturally expect from institutions acting voluntarily and with sensitivity to market signals. Why would any bank voluntarily advance new credit when the secondary market says it is worth 50 cents or less; when bank regulators mandate reserves of 40% or more; and when stock market analysts rate every bank in inverse proportion to the size of its LDC debt portfolio? The fundamental internal contradiction of the orthodox strategy is that it preaches the doctrine of a market-based approach while at the same time insisting on the need for new flows of bank credit despite the fact every market signal indicates that new lending should not be forthcoming from commercial banks.

There are other basic reasons why banks cannot be expected to undertake new medium and long-term lending except possibly the bare minimum needed to keep existing LDC loans on a performing status. Commercial banks now understand more clearly than they did in the 1970s that the value of LDC debt depends to a very significant degree on the policies of industrial country governments. Banks are therefore reluctant to accept further exposure without assurance that the right trade and economic policies will be put into effect, not only by debtor country governments, but by our own as well. These assurances cannot be provided in advance. The orthodox strategy nonetheless assumes that banks should engage in further long-term lending (the very thing which got them into trouble in the first place) on the faith that industrialized countries will succeed in promoting growth and a more open trading system.

You have pointed out another significant element of uncertainty in saying, with reference to the efforts of developing countries: "Too often good programs have been torpedoed by unexpected external developments over which governments have had no control -- a fall in export prices, a shrinking of their markets, an increase in import prices, an escalation in interest rates, etc." Precisely. And this explains why commercial banks have learned that their proper role in future country finance is as providers of trade credit and other forms of short-term lending which are much less vulnerable to macroeconomic risk.

A Double Standard?

Every commercial banker would have been struck by the irony of your defense of the recent record of IMF net lending to the middle income, highly indebted countries. In the Zurich address you said -- "The IMF cannot relax the conditions it attaches to the use of its resources. Were it to do so, it would risk immobilizing its own resources which must remain continuously available to all its members." Given your implicit position that commercial banks should relax the conditions which they would normally apply to new lending (in this case to uncreditworthy

LDCs), and the fact that the IMF insists on principal repayment on schedule while banks have been forced regularly to extend term, it would seem to follow that you believe banks are better able than the IMF to risk immobilizing their resources.

Regarding the conditions the IMF would apply to new lending, you have said: "...Should we relax (the conditions) and share in the financing of programs that would not appear to us to permit a genuine improvement in countries' situations? Again, no." As commercial bankers we can understand this position. But experience leads us to expect that a different standard will be applied when the proponents of orthodoxy unite to press for participation in the impending new money request from Brazil despite the fact that this will be the essence of a stop- gap measure and will do very little if anything "to permit a genuine improvement" in the situation of Brazil.

The Basic Flaws in a Piecemeal Approach

Although defenders of the orthodox debt strategy have tried to make a virtue of the "case-by-case approach", it is in fact a piecemeal approach which has prevented the major participants from acting in a way that would eventually lead to a solution. For example; one important reason why the Mexican debt for bond swap failed to come close to meeting expectations is that the potential scale of the deal was too small to have a material effect on the creditworthiness of Mexico. The risk associated with interest payments on the bonds therefore remained far too high. Much broader approaches are needed.

It will only be rational for banks to participate meaningfully in debt relief if the scale of the effort is such that there is credible hope for a long-term work-out. For all its hype, the current "menu of options" tactic is essentially diversionary in that it fails to address the economic fundamentals of the problem and serves primarily to concentrate exposure in a smaller (but still large) number of major banks. So long as governments continue to support a strategy of muddling through, it must be expected that banks will also muddle through, focusing exclusively on crisis management and the narrowest possible view of the system. This is the trap we have been in since Mr. Baker's pronouncement in 1985 and I can see nothing in the present course which will cause things to change. For this reason, the prevailing official debt strategy contains the seeds of its own undoing since it is incapable of bringing forth the new sources of credit on which its ultimate viability depends.

These comments explain what may appear to some as the paradoxical behaviour of The Bank of Nova Scotia in response to rescheduling and new money negotiations. We have taken an extremely hard line in these circumstances despite being a prominent advocate of so-called "concessional" approaches to LDC debt. The reason is of course that we believe the orthodox approach is on the wrong track and we have no wish to make any sacrifices in its support. We are quite prepared, however, to do our part on behalf of a strategy that points in the direction of eventual solution.

<u>The Critique of Alternatives</u>

You have dismissed so-called "more radical approaches" on three grounds, none of which in our view are valid. First, you state that there is no simple panacea, the implication being that every alternative to the orthodox approach purports to be both simple and a panacea. Certainly the approach we have advocated would be anything but simple to negotiate. We make no claim that our proposal would be a panacea since a great deal of time and effort will still be needed to reduce the problem to manageable proportions. We only claim that it would be superior to the prevailing approach.

Second, you said in Zurich that you detect no readiness on the part of legislators to entertain alternative approaches to the debt problem. This is not a criticism of the substance of possible alternative approaches but is simply a statement that, for whatever reason, politicians in industrial countries have lacked the vision to see beyond orthodoxy.

Finally, you state, in effect, that alternative approaches are not needed since the current strategy has sufficient adaptability to evolve a solution given time and effort. This too is not a substantive criticism of any particular alternative approach but is really an assertion that the orthodox strategy is the best feasible strategy. One must then look at the evidence and come to a judgement.

Alternatives to the official debt strategy are also often criticized on the ground that involve moral hazard, or a bank bail-out, or that they ignore the important differences among the debtor countries. Without taking the time here to rebut these objections in detail we would simply point out that: (a) Our proposal for selective debt relief would be based on a case-by-case negotiation and assessment of need and merit. The <u>framework</u> would be comprehensive but the programs would be individually tailored; (b) In our plan, debtor governments would be subject to at least the same disciplines as they are now -- e.g., threat of withdrawal of both concessions and short-term credit. But in addition to punishments there would be the incentive of meaningful debt relief and light at the end of the tunnel. In short, we believe an appropriately designed concessional program would contain <u>less</u> moral hazard than the status quo; and finally (c) The plan we have proposed -- based on negotiated cuts in interest payments and a creditor-funded insurance pool -- involves governments only <u>contingently</u> as an ultimate back-up of the insurance pool and as shareholder of the international financial institutions. If creditor governments have been candid in their declarations that most debtor countries can recover provided they adopt proper policies and receive adequate development capital (or, equivalently under our proposal, obtain meaningful interest relief), then there should be minimal risk that the contingent obligations of governments would be called. If, on the other hand, governments do not really have such faith then they obviously should not be encouraging new LDC lending by their banks.

We recall Mr. Baker's original argument that banks should provide new development financing because it is in their own interest to facilitate the economic recovery of the debtors. But for the reasons outlined earlier in this letter, the "market" -- in which Mr. Baker and others place so much faith -- has signalled otherwise. The only resolution of this conundrum, in our view, is a contingent involvement by industrial country governments to remove the open-ended uncertainty created by the overhang of LDC debt. In return, banks would offer appropriate cash flow relief to debtors. Failing this, I believe we will remain at an impasse, the consequences of which are that many LDCs will be unable to play a role in the international economy and bank provisions against possible losses on LDC lending will be crystallized as actual losses, a substantial portion of which will be at the expense of government revenues. Surely this outcome serves no one's interest.

In summary, our judgement is that the orthodox debt strategy is logically incoherent in the sense that it is inconsistent with its own requirement for new capital flows sufficient to spark economic recovery in the heavily indebted countries. Meanwhile, the banking system continues to exist under a cloud; exports to the LDCs stagnate; and moderate politics in the debtor countries is constantly challenged. Although our particular proposal may not be the best feasible strategy, we are convinced it is superior to the present course.

We would of course be pleased to discuss these matters further at any time. I have taken the liberty of forwarding a copy of this letter to our Minister of Finance, The Hon. Michael Wilson.

Sincerely,

C.E. Ritchie

cc: Hon. Michael Wilson

FORM NO. 1728
(2-8)

THE WORLD BANK

ROUTING SLIP	DATE: July 28, 1988

OFFICE OF THE SENIOR VICE PRESIDENT, FINANCE

NAME	ROOM NO.
Mr. Conable	

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

REMARKS:

Attached is a supplementary briefing note for your meeting with Mr. Ritchie tomorrow, July 29.

FROM:	ROOM NO.:	EXTENSION:
DJW D. Joseph Wood		

Country File

BRIEFING NOTE
BANK OF NOVA SCOTIA

July 29, 1988

Cedric E. Ritchie, 61, Chairman of the Board and Chief Executive Officer

* Education: Bath High School

* Career:
  - Joined Bank of Nova Scotia in 1945
  - Served at various branches in the Maritime Provinces and in Montreal;
  - Transferred to Inspection Staff; appointed as Asst. Inspector, 1954
  - Accountant, Toronto Branch, 1956
  - Inspector, Credit Department, General Office, 1959
  - Assistant Manager, Toronto Branch, 1959
  - Chief Accountant, July 1960
  - Assistant General Manager, Administration, 1963
  - Joint General Manager, 1966
  - Chief General Manager, International, 1968
  - Chief General Manager, 1970
  - Director, 1972
  - President and Chief Executive Officer, 1974
  - Chairman of the Board and Chief Executive Officer, 1979

* Chairman and a Trustee of Scotiabank Pension Fund

* Member of:
  - Board of Governors, Dalhousie University
  - Canadian Executive Service Organization - Advisory Council
  - Center for Inter-American Relations, International Advisory Council
  - Chairman's Council of the Americas Society
  - School of Business Administration Advisory Committee, University of Western Ontario

* Honours: Officer of the Order of Canada, December 1981

* Honorary Degrees:
  - LL.D., St. Francis Xavier University, December 1979
  - LL.D., Dalhousie University, May 1983
  - LL.D., Queen's University, June 1984
  - LL.D., University of New Brunswick, October 1985
  - LL.D., Mount Allison University, October 1986
  - Fellow of the Institute of Canadian Bankers

THE BANK

Basic Information

* A Canadian chartered bank founded in 1832
* Fourth biggest bank in Canada with $71.3 billion in assets as of April 30, 1988
* 28,628 employees and 1,240 branches

Recent Developments

* Bank of Nova Scotia acquired McLeod Young Weir Limited on March 29, 1988, one of the Bank's two junior managers for domestic Canadian dollar borrowing operations. The new company is named Scotia McLeod.

RELATIONSHIP WITH IBRD

* Bank of Nova Scotia. The World Bank has had very little direct relationship with Bank of Nova Scotia in its borrowing operations to date, although this is expected to increase in the future. Beginning in February 1984, Bank of Nova Scotia has been involved as an underwriter in the Bank's domestic syndicate for Canadian dollars with an allocation of about 1% of an issue, mainly for relationship purposes related to emerging swap prospects. The Bank held active discussions with Bank of Nova Scotia regarding the emerging Canadian dollar swap markets, because Bank of Nova Scotia was the Canadian chartered bank with the greatest expertise in the field at the time in 1985. We subsequently had swaps in which Bank of Nova Scotia was involved.

* Scotia McLeod. McLeod was added to our EuroCanadian syndicate in July 1987, and it became one of the three Canadian agents for our COLTS program in May 1988.

PENDING ISSUES

Debt relief. See attached piece from Globe & Mail.

Scotiabank to push debt relief

BY VIRGINIA GALT
The Globe and Mail

The Bank of Nova Scotia has been invited to discuss its comprehensive proposal for Third World debt relief with members of the U.S. Senate's Banking Committee next month.

For Scotiabank chairman Cedric Ritchie, the invitation to appear in Washington Aug. 4 is a welcome indication that his message is not falling on deaf ears.

Scotiabank's proposal for a lasting solution to the trillion-dollar debt problem — first presented to the Canadian Government 18 months ago and to the bank's shareholders earlier this year — would require the co-operation of the lenders, the debtors and the governments of the world's major industrialized countries.

Mr. Ritchie had urged the Canadian Government, as host of the recent economic summit of the seven major industrialized democracies, to seize the opportunity to propose a framework for solving the debt problem of the less-developed countries — before it reaches crisis proportions.

The summit did adopt a proposal to provide relief to the poorest African debtor nations, but did not publicly address the broader problems.

"Perhaps one is too optimistic," said Mr. Ritchie, who, nonetheless, keeps promoting his plan. (Federal Government officials say Ottawa is still considering the Ritchie proposal, among others.)

Mr. Ritchie said in a recent interview that North American businesses are now awakening to the cost of lost export markets, particularly in Latin America, because of the staggering debt loads borne by those countries. And, he said, social commentators are becoming increasingly alarmed about the prospects of social and political upheaval as suffering populaces see every spare cent of their countries' income going toward debt-servicing instead of health care, education and other essentials.

Peter Nicholson, a senior vice-president of Scotiabank and Mr. Ritchie's executive assistant, said: "What has been most frustrating — and we realized it from the beginning — was that our approach was going to be hard to sell without a crisis. And yet it was precisely to avoid a crisis that we were putting it forward.

"The cost of waiting until there is a crisis — and by that I mean a simultaneous inability of a number of these countries to pay — is so wasteful and so dangerous."

Key elements of the plan include:

- The negotiated reduction of interest rates, based on each debtor country's capacity to pay.
- The establishment of an insurance pool by the banks to top up any interest shortfalls (caused by unforeseen events such as earthquakes), with the insurance fund guaranteed by the industrialized governments through an agency such as the World Bank.
- The backing of the principal amount of existing medium- and long-term debt by zero coupon bonds issued by the major industrialized governments, with the bonds to be purchased by the debtor countries on their behalf by one of the international financial institutions.
- A commitment by the banks to provide short-term trade credit on normal commercial terms, with medium- and longer-term lending coming primarily from the World Bank until the debtor countries are again able to raise money on international capital markets.

Cedric Ritchie: "Perhaps one is too optimistic."

Mr. Ritchie proposes the establishment of a new international financial institution, to be linked to the World Bank and the International Monetary Fund, to monitor implementation of the plan and to ensure that concessions and new money are linked to "responsible policies" by the debtor countries.

A similar proposal, involving the setting up of a new "international trustee" to help sort out the debt problem, has been advanced by James Robinson, chairman of New York-based American Express Co.

"We have had long discussions with Jim Robinson. I don't think he

plan in Washington

feels he has the absolute answer, nor do we," Mr. Ritchie said. "The thrust of our proposals is to get some thinking going on this.

"One of the points that has bothered us is that this has always been viewed as a banking problem. Now, we are starting to hear some Canadian businessmen saying that this problem has to be addressed because these countries were our customers — with emphasis on the word 'were,'" Mr. Ritchie said.

Government policy makers should consider whether they are prepared, through lack of action on the debt problem, "to write off these markets in terms of long-term export development.

"If they are, then why do we send trade missions to these countries and maintain embassies and trade commissioners?"

In fiscal 1987, the four largest Canadian banks recorded their first losses in memory because they substantially increased their reserves against possible defaults on loans to less-developed countries. Canadian banks have now returned to robust profitability and are among the best insulated in the world, with reserves ranging between 40 and 45 per cent of exposure.

But that, in itself, has led "a lot of people to say the problem is solved because it is not a problem with the banks anymore," Mr. Nicholson said. "And that is a tragic misreading of the fundamental nature of the problem."

Added Mr. Ritchie: "While you put up the reserves, you don't want to use them. It is almost like paying insurance premiums on a house. You sure as hell don't want the house to burn down."

The debt problem is a legacy of the late 1970s, when the banks, flush with money deposited by oil-producing countries, were eager to lend to the developing countries — and were strenuously encouraged to do so by governments of the industrialized countries.

Global recession, partly a consequence of high oil prices and low prices for other commodities, later hurt those developing economies. Interest rates shot as high as 21 per cent and the developing nations were unable to continue servicing their debts.

MEETING WITH BANK OF NOVASCOTIA

This proposal was presented 18 months ago to Canadian Government. A modified proposal combining the Robinson proposal with the Scotia proposal was developed recently (modified I2D2)

Mr. Ritchie emphasizes the need to have proactive system before reaching crisis. He acknowledges that proposal may not be considered without crisis. Large money centre banks have not reacted favorably to this scheme.

The Bank has developed an insightful examination of the pros and cons of the current situation. Mr. Ritchie believes in particular that the current approach cannot work since:

- it encourages a market based approach when many market signals are negative

- debt increasing approach needs to be replaced particularly in small countries

Key elements of ScotiaBank proposal:

- negotiated reduction interest rates case by case (key issues discrimination among borrowers)

- insurance pool by commercial banks to top interest shortfalls--the fund could be guaranteed by industrialized countries through World Bank

- back principal with zero coupon bonds

- commitment of commercial banks for short term credit

During meeting

You may wish to ask details on his proposal and status of proposal.

You may wish to ask in this perspective what his impressions are of the Mexican situation following the election and his recent trip.

You may want to note that:

There is a need to facilitate the exit of banks which are not in for the long term. This would shrink the number of banks involved and make negotiations easier.

There are no regulatory or market incentives for commercial banks to get involved in general BOP support to LDCs;

Issue is role of commercial bank involvement in longer term development financing since commercial banks are expected to focus on short term financing.

In response to emphasis on impending crisis which led to proposal, you may mention that the situation is not as gloomy as it was at the end of 1986, although it is very difficult for certain groups of countries (highly indebted middle sized countries).

Mr. Bouchet from the Financial Intermediation Department will be attending.

JWS
~~MH~~
~~BBC~~

With the compliments of the cc: MQ, DH, ES (sent)
Chairman's Office

Midland Bank plc
Poultry
London, EC2P 2BX.
Tel: 01-260 8000

SOVEREIGN DEBT AND THE BANKS

A Speech Delivered To The Lombard Association On Wednesday 13 April 1988 by Sir Kit McMahon, Chairman of Midland Bank

In the late 1970s and early 1980s, when the present problems of developing country indebtedness to the banking system were being built up, there was to be found among the lending bankers a widespread naive optimism which led to some very damaging consequences. In the succeeding period pessimism has been equally widespread, perhaps equally naive and equally misguided.

For the most part, governments, central banks and independent observers welcomed the first stage of lending by international banks to oil-importing countries. It was a new phenomenon, with undoubted potential dangers, but it arose in response to the equally unprecedented and dangerous phenomenon of the quintupling of oil prices in 1973/4. Indeed, since the oil producing countries placed their newly expanded revenues almost entirely on deposit with the world's major banks, it was close to inevitable - certainly if a major deflation of the world economy was to be avoided - that the funds be "re-cycled", as the term was, through the banks back to the countries having to find the money to pay for the now much more expensive oil.

But the essence of the re-cycling phenomenon was, of course, that it was a temporary phase, facilitating a reasonably smooth adjustment to the massive increase in the price of a commodity of central importance to the world's economy, the price elasticities of demand and supply for which were, in the short run - but only in the short run - very low.

Unfortunately, however, everybody got into the swing of the thing. Vested interests among both lenders and borrowers were built up, competition became intense, and we witnessed one of the all too frequent examples in the world's history of financial euphoria.

In vain did the world's financial authorities point out with increasing emphasis that the lending would have to stop expanding at some point, and that when it did it would do so with a bump. Equally vain were the observations that spreads on the lending were being driven down to levels which, after a proper allowance for costs, would yield negative returns.

The dangers of being left out, the risks of offending the borrowers or the large banks in charge of the syndications, the seductive lure of unquantifiable cross-selling opportunities proved, as so often on analogous occasions in the past, too strong. Intellectual justification was also produced. Whole departments of country risk analysis were set up, though in too many cases their main output appeared to be a rationalisation of what the lending managers were doing. Fundamentally, there was an unresolved problem at the heart of everyone's analysis. Lending by banks to governments in this way and on this scale was without precedent and it was genuinely difficult to understand and assess what the risks actually were.

There thus developed the notorious doctrine, enunciated by some of the most senior and distinguished bankers in the world, that "there is no such thing as sovereign risk" or, more bluntly, "countries don't go broke".

After the Mexican moratorium of June 1982, when voluntary lending to a number of countries dried up almost overnight and the world confronted a potential financial crisis of some magnitude, these rationalising slogans fell rapidly into disuse. They had always sounded somewhat bland and they had undoubtedly proved misleading as a guide to action. In their place there quickly developed statements of the opposite kind from outside commentators: "The banks will never get a penny back from these countries."

The years that have followed have seen a dreary and unspectacular series of rescheduling negotiations between the indebted nations on one side and the banks on the other, with the international financial authorities playing a facilitating role in the middle. This has often been castigated as "muddling through" or "refusing to face reality". Looked at more deeply, it may seem to have been a largely successful process of "buying time", of enabling both borrowers and lenders to strengthen themselves and adjust to the position into which they had got themselves without precipitating a crisis for the world's monetary system.

It has been a painful process, however, for the developing countries involved. They have been caught up in the worldwide conversion to anti-inflationary policies beginning at the end of the 1970s - indeed it was the necessary monetary disinflation after the excesses of the 1970s that precipitated the sovereign debt crisis itself. For years too much of the borrowing (though certainly not all of it) was used not to facilitate a fundamental adjustment to changed conditions but rather to facilitate unsustainable levels of consumption, waste and capital flight. Necessarily there have in the succeeding period had to be harsh reductions in the standard of living of the people in the countries concerned.

In financial terms, it has been difficult too for the banks, beset by shareholders, supervisors and the investing community because of the perceived weakness in their balance sheets. There has been steady and largely successful pressure on the world's banks by the world's supervisors to strengthen their capital ratios. Well before the Cooke Committee of central bank supervisers began working for a "level playing field", or the equalisation of capital constraints between different national banking systems; it had - since 1983 - been concerned, if you like, to tighten the rules of the game that is played on the field.

The years since 1982 have also seen much debate on how the problem is to be "solved". Much of this debate has been rendered somewhat nugatory by a widespread lack of agreement as to what would constitute a solution to the problem. And it sometimes seems as if we are as far from understanding the nature of the risks that are involved, and the way they are to be assessed and reduced, as we were in the heady days when lending was going at full tilt.

Specifically, we may look at the phenomenon of provisioning against sovereign debt. For some years after 1982, few of the major banks in the US and UK took a strong line on the need for substantial provisions. There were doubtless a number of reasons for this. One important factor, which we will return to later, was the perceived difficulty of gaining tax relief on large specific provisions for developing country debt.

Over the last eighteen months or so there have been several major developments. On the one hand, much work was done both in the central banks and in the commercial banks to develop matrices weighting different kinds of risk inherent in the loans to borrowers with repayment difficulties. For example, the Bank of England's matrix combines a number of empirical tests and judgmental assessments which, added together, provide a score, leading to the assignment of the country concerned to a particular provisioning band. On the other hand, there was a sharp and specific deterioration in the repayment position when Brazil, one of the most important and most market-oriented debtor countries, declared in February 1987 a moratorium on interest payments.

There followed last Spring a sea-change in the behaviour of all the major US and UK banks. Following a lead from Citibank, specific provisions against lending to rescheduling countries were raised from small or negligible levels to 25-30%.

This quantum jump in provisioning was obviously an important event; but its true significance is far from clear, as subsequent events and the reactions of banks and supervisors to them have shown. The problem is that there is something special about sovereign debt. Revenue authorities have been right to be cautious in their attitude to it. The notorious statement that "countries don't go broke" was misleading at the time it was most widely canvassed, but contained and still contains an important element of truth.

In the relatively sudden switch to higher provisions in 1987 the UK and US banks were trying to address a number of separate audiences. To shareholders and financial analysts they were seeking to demonstrate the adequacy of capital resources; and at the same time, by reference to market discounts, to show a "realistic" valuation of the loans involved. To their regulators they were seeking to demonstrate prudence. To their tax authorities they were looking for ways of tax relief.

More interestingly, perhaps, the increases in provisioning were seen as tactical moves in two areas: vis a vis competitors where strong banks hoped to consolidate a competitive advantage; and, most fundamentally, vis a vis the rescheduling countries themselves.

These different motivations have led to conflicting and confusing explanations of the reasons for the provisions. Moreover, the evolution of events over the past year has led to further changes in both policies and justification of them. To take one example, some people referred to the 25% market discount on some sovereign loans as a justification for a 25% provision. When the market discount on these loans almost immediately moved to 50% this argument had clearly to be reconsidered, and is in fact much less widely used now.

Against this background it seems useful to try to establish some principles which should govern the raising of specific provisions against sovereign debt. To do this it is necessary to go back to first principles and see how far the implicit analogy between an individual or corporate debtor and a sovereign debtor holds.

The theoretical basis for provisioning debt exposure rests on the assumption that the principal sum for collection is in doubt. An individual or corporate debtor has a finite life which may be brought to an end, either de jure or de facto, by negotiation or judicial proceedings, so that only a proportion of the debt outstanding, which may indeed be zero, can be recoverable.

These conditions do not apply to the great majority of sovereign debtors. Not only are the conventional courses of action such as putting in new management or administrators or receivers not available for bank lenders; but sovereign countries cannot judicially wind up their affairs in the normal course of events. Of course after a revolution or war a state can disavow the debts incurred by the previous regime. And even without a revolution a state can in principle abrogate its obligations; but for this to be a practical step it is necessary that the state in question is willing and able to sustain itself indefinitely divorced from commercial and financial relations with the rest of the world.

There are a number of relatively less important countries which have shown themselves prepared to act in this way: Bolivia, Peru and the Sudan are perhaps examples. Doubtless there are others. But for the major countries it is clearly and explicitly not an option. In this connection, President Sarney's recent acknowledgement that Brazil's unilateral suspension of interest payments was a major mistake and his declared intention to regularise the situation are very significant. Here it was only the interest payments that were unilaterally suspended; there was no abrogation of capital: but the difficulties caused to Brazil's commercial and financial position were clear and severe.

There is a further point which has been given sharp relevance recently in relation to the Mexican offer of new discounted value bonds. It is, I suggest, extremely difficult to envisage in a circumstance other than a wind-up or reconstruction the possibility of a partial write-off of capital. It is certainly without precedent in dealing with a going-concern debtor to acknowledge that anything less than 100% collection of principal is appropriate. The arbitrariness of any particular figure and the impossibility of ensuring that the particular percentage written off remains for the rest of time unchanged are surely obvious. We are speaking not merely in terms of a "slippery slope" argument but of the inappropriate use of a technique devised for the termination of an institution in relation to one whose life will continue indefinitely.

None of this is to deny that debtor countries can and do experience economic difficulties and that lenders can and do experience difficulties in receiving payments in service of their loans. As we have already mentioned, circumstances have indeed been difficult for both the debtor countries and the lending banks in recent years. 1987 saw a downward re-assessment of the situation, particularly in respect of Brazil's non-payment of interest. At present things look a little better. In 1989 they could deteriorate again if world economic conditions deteriorate. Changing assessments of the situation, not simply for the debtors as a whole but for individual countries and individual borrowers within these countries, will have continually to be made; and, in the light of changing likelihoods of the maintenance of service payments, specific provisions may have to be adjusted.

The point I wish to make is that such changes in provisioning should not, indeed cannot properly, be made on the basis of doubts about the ultimate collectability of the principal. It is, of course, not necessary, or indeed sensible, to assume that at some point in time all the present loans will be repaid in full to the banks that made them.

The appropriate goal - the definition of a solution to the sovereign debt problem - is the replacement of "rescheduling" by "re-financing", of involuntary lending by market finance. When that situation occurs, some lenders will doubtless take payment as their loans become due: others will be content to re-finance their loans because of the enhanced creditworthiness of the borrowing country. The sovereign borrowers we are concerned with will properly remain net capital importers for many years yet, just as the US properly did when its economy was developing.

But none of this throws doubt on the fundamental collectability of the principal. What is and has been in doubt for the past five or six years for most of the countries concerned is how long it will be before lending to them ceases to be involuntary; and in the meantime with what interruptions and on what terms will the principal continue to be serviced. Thus sovereign provisions are raised in recognition of the fact that at any given moment a bank's loans to developing countries may not be performing - either in timing or in amount - at their agreed contractual terms. A bank's provisions, therefore, are a reflection of the need to set aside non-interest bearing capital - indeed capital undistributable to the shareholders - to be used to support the funding costs un-remunerated from time to time by this group of debtors. We may think of this as inert capital.

What are the implications of looking at LDC provisioning in this way? It does not, of course, indicate that any particular level is appropriate or inappropriate. We are likely to see continued modifications to our levels of individual country provisions, both upwards and, it is to be hoped, downwards, as circumstances change. But what it does suggest is that, short of something like a cataclysm, it is unlikely to be appropriate for major banks with substantial exposures to the main rescheduling countries to make another quantum jump in their average level of provisions. Even more strongly it suggests that present levels should not be regarded as only one step on a long progression to 100%.

Although the reasons are not always clearly spelled out, one can, I think, see a developing recognition of this position among major US and UK banks and their regulators over the past twelve months or so. The dangers of "macho" or competitive provisioning are increasingly clear and understood. And the tactical implications of large specific provisions against individual countries for the negotiating process with those countries are also being more clearly recognised. A number of the countries concerned have seized on the discounts quoted for their debt in the markets and argued in favour of their trying to "capture" them.

The earlier equation made by some bankers between the rate of market discount and the rate at which they decided to provision - though now largely dropped by the bankers - has been picked up by some of the debtor countries. We have seen the curious spectacle of governments attempting to establish that their creditworthiness is lower than their major creditors are prepared to accept that it is. The large majority of the major banks have not been prepared - most strikingly recently in the case of Mexico - to go along with this. The attitude of those banks who did not subscribe to the new Mexican bonds should not of course be interpreted in any way as a rebuff to the Mexican authorities. On the contrary, it reflects a view that their relationship with Mexico is to be a continuing one, that they believe in Mexico's ultimate return to free market financing, and that until that occurs they are prepared to continue with any necessary rescheduling process - including, if necessary, and in the right policy frame-work, the provision of new money.

I have been speaking primarily of major US and UK banks. Others have, of course, behaved differently. But the reasons for their different behaviour reflect their different circumstances. Many of the regional US banks, and many other banks with small exposures round the world, should never have been involved in lending to the developing countries in the first place.

It was, in my view, a tactical error by the various rescheduling banking committees not to have quite early on devised ways of letting the very large number of banks with small exposures get out of the rescheduling process. Now many of them have done this for themselves by making very large - even 100% - provisions, so that they can tear up any telexes sent to them. They have simply withdrawn from relationships which were always marginal, both to them and to the borrowing countries.

A number of banks in continental Europe with significant exposures have also behaved differently from the major US and UK banks in raising substantial provisions, in some cases well over 50%. Here a major reason for the different behaviour has been the different behaviour of their tax authorities. In a number of these countries the banks have been promised full and immediate tax relief up to specific percentages, rising each year. Such incentives are hard to resist. Had they been offered in such an open-handed way by the US and UK authorities the banks' behaviour there might have been different too. But that would have still not implied a different view about the ultimate collectability of the principal of the loans concerned.

I have been primarily concerned in these remarks with the justification for and tactics of provisioning policy towards the developing country debtors. Let me conclude with a few words on the outlook. As I said earlier on, the situation looks to me considerably better at the moment than it did through most of 1987. The return of Brazil to the negotiating table and the abandonment of her refusal to pay interest is, I think, enormously important and significant. So too are the signs that both Venezuela and Chile are beginning to tap market sources of finance. So is the greatly strengthened position of Mexico. I also take comfort from the proliferation of different approaches to debt financing. Although, as I have said, I do not believe the new Mexican bonds were appropriate instruments for the banks with major exposures to take up, they were an innovative device which may well have appealed to those banks more marginally involved. The growing markets in debt for debt and debt for equity swaps can only be helpful.

More fundamentally, improved policies in a number of countries have enhanced their creditworthiness and led to cessation, or even reversal, of capital flight.

There is still, however, a long way to go. Debt to export ratios remain high. And in a number of important countries, policies leave much to be desired, with declines in the standard of living together with extremely distorted domestic economies. Given a continued reasonable world economic environment, however, I see no reason why slow but continuous progress should not be made. If this external environment is not forthcoming, things could be much more difficult.

Governments in the major countries have taken the view over the past year or so that the developing country debt problem no longer poses the threat of a systemic crisis - and can therefore be broadly left to the banks and the countries to sort out. This seems to me an oversimplified view. But even on its own terms, the banks and the developing countries still have the right to demand of governments a contribution in terms of appropriate macro-economic policies.

FORM NO. 1728
(2-8)

THE WORLD BANK

ROUTING SLIP	DATE: 4/27

**OFFICE OF THE
SENIOR VICE PRESIDENT, FINANCE**

NAME	ROOM NO.
Mr. Conable	

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

REMARKS:

Barber -
No response was necessary to the incoming, but this letter would be helpful.

[signature]

FROM:	ROOM NO.:	EXTENSION:

EXC 880421016

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

BARBER B. CONABLE
President

April 26, 1988

Mr. Markus Lusser
Chairman of the Governing Board
Swiss National Bank
Borsenstrasse 15
8022 Zurich
Switzerland

Dear Mr. Lusser:

I would like to extend my congratulations, along with those of my colleagues here at the World Bank, on your recent promotion to Chairman of the Swiss National Bank.

Over the years, the World Bank has enjoyed a special relationship with the Swiss National Bank. Switzerland is second to no other country in its generosity in providing access to its capital market to the World Bank. During the past 37 years, the World Bank has borrowed SwF 34.3 billion through 54 public issues, 56 private placements, 36 syndicated loans and a variety of direct placements with Central Banks. Of this amount, SwF 17.8 billion remain outstanding and represent about 18% of the World Bank's total volume of medium and long term debt.

In addition, the Swiss National Bank has provided the World Bank with considerable flexibility in its Swiss franc borrowing operations. Indeed, in an exception to regulations precluding the offshore use of the Swiss franc in denomination of securities operations, the Swiss National Bank has allowed the World Bank to undertake Swiss franc-denominated placements with Central Banks.

I would like you to know that we appreciate your support of the World Bank and its mandate which is reflected so eloquently in the numbers cited above. At the same time, I want to assure you that we will continue to observe the conservative financial policies which have been our hallmark in the past.

I am confident that the close cooperation between our institutions will be further strengthened during your tenure as Chairman of the Swiss National Bank.

With best regards,

Sincerely,

(Signed) Barber B. Conable

bcc: Messrs. Stern, Roth, Graffam
Mrs. Einhorn

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

BARBER B. CONABLE
President

March 8, 1988

Dear Dr. Bröder,

Many thanks for your letter of February 22, 1988. I have requested Mr. Moeen A. Qureshi, Senior Vice President, Operations, to attend the meeting you are proposing of the multilateral financial institutions in September. Mr. Qureshi will be responding to you about the date and substance of the meeting.

Sincerely,

(Signed) Barber B. Conable

Dr. Ernst-Günther Bröder
Chairman
European Investment Bank
100, boulevard Konrad Adenauer
Luxembourg-Kirchberg
L-2950 Luxembourg

cc: Messrs. H. Vergin and V. Dubey.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 88/02/22 DUE DATE : 88/03/16
LOG NUMBER : 880302003 FROM : Ernst-Gunther Broder
SUBJECT : Eurpean Investment Bank to chair meeting during the 1988 World Bank/IMF Annual Meetings in Berlin. Topics suggested.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

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

COMMENTS : cc: Messrs. Hopper, Stern, Thahane

EXPEDITE

European Investment Bank

Dr. Ernst-Günther Bröder
Chairman

Luxembourg, 22 February 1988

Mr. Barber CONABLE
President
World Bank
1818 H Street N.W.
Washington, D.C. 20433 (U.S.A.)

On the occasion of the 1988 World Bank/IMF Annual Meetings in Berlin the multilateral financial institutions will be holding their customary meeting to discuss matters of mutual interest.

As was announced last year in Washington, when the President of the Inter-American Development Bank presided over our discussions, this year the European Investment Bank will be chairing the meeting. I should like to propose that this take place on Sunday, 25 September. The exact venue and detailed arrangements will be communicated to you nearer the time.

The purpose of this letter is first to invite you to attend the meeting, and second to propose those subjects that we might usefully discuss. As possible topics I would like to suggest the following :

(1) the role and weight of environmental factors in the project appraisal procedures of the MFIs (to be introduced by the EIB) ;

(2) country support programmes and aid co-ordination (which the World Bank has agreed to introduce) ;

(3) recent developments in the ECU : its utilisation in international transactions and revelance for development finance (details of presentation to follow).

To enable us to finalise the agenda for the meeting, I should be grateful if you would let me have your reactions to the proposed date and subjects as soon as possible. If there are other topics that you would like to have discussed please do not hesitate to suggest them and let me have the relevant details.

I look forward to seeing you in Berlin.

Very sincerely E.-G. Bröder

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

C
O
P
Y

March 2, 1988

Mr. Guido Hanselmann
Executive Vice President
Union Bank of Switzerland
Bahnhofstrasse 45
Zurich, Switzerland

Dear Mr. Hanselmann:

Thank you for the letter that you and Mr. Huber sent following up on the discussions we had at the time of the World Bank Annual Meeting. We very much appreciate your thoughtful comments on what is required to sustain the debt restructuring process and to restore access by the heavily indebted countries to the private capital markets. I have passed the Memorandum to our operational staff so that they might take it into account in their work on the heavily indebted countries. Moeen Qureshi mentioned to me that he had the opportunity to discuss some of these issues with you recently in Davos.

We certainly share your conviction that a sound macroeconomic framework and specific structural adjustment measures are a sine qua non of a successful return of these countries to more normal borrowing relationships. Without adjustment, growth will be inadequate, debt servicing capacity will not expand and the improvement in creditworthiness indicators will not take place. However, we are also keenly aware that the other two pillars of the international debt strategy are equally important: we must continue to have an open and expanding world economy, and we must continue to find ways of mobilizing additional resources to support investment and the growth process generally.

As you know, raising the necessary external financing has not been easy, notwithstanding the recognition by the major commercial banks such as yourselves that the burden of supporting troubled debtors must inevitably be a shared responsibility of all creditors concerned. For our part, we have made major changes in our lending programs in the heavily indebted countries, shifting to lending in support of adjustment programs and have substantially increased our net disbursements. Our own exposure relative to that of other creditors has increased sharply. We have done this voluntarily, without insisting on rigid adherence to formulas based on past shares of exposure.

We believe this approach is appropriate for a development institution such as ourselves. As you suggest, we have taken a selective approach to the use of credit enhancement techniques (through guarantees and payments sharing arrangements), limiting our involvement to those cases where it was essential to achieving a successful debt restructuring. In all of the countries in which commercial bank new money packages have been assembled, we have sought to facilitate the new money process by our presence as a lender, by parallel cofinancings and where it has been clearly demonstrated to be necessary, by various credit enhancement tools. We shall continue to approach this issue constructively, and on a case-by-case basis.

I note with interest your comments on project financing. It is vitally important that investment levels be restored in these countries, and we fully intend to continue to be a lender for specific projects first and foremost. But in many of these countries the highest economic returns in the near term can come from structural change, economic liberalization and removal of obstacles to efficiency and higher domestic savings rates. Therefore, we try to adapt our support to what we see as the most pressing needs of our client countries at any time.

Finally, we welcome your support for an expanded role for the World Bank in the area of new financial instruments and support for better risk management by developing countries. We are actively exploring how we can support the emergence of new market-based financing techniques for our client countries. We fully welcome your support and cooperation in this area.

Again, thank you for your thoughtful comments.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable
President

cc: Mr. Klaus Huber
Senior Vice President
Union Bank of Switzerland

bcc: Mr. M.A. Qureshi

DBock:mac

Marianne:

Per Nicola, Mr. Qureshi will have this letter for BBC's signature around the 29th of Feb. If any questions, please call Thierry Baudon.

Please return to me.

CP

This is fine

Marianne:

Can you please tell me the status of these two letters. As of Feb. 10 last week, they were on "hold" with you when I checked.

Thanks.

CP

W MQ for review as of 2/17/88, per Nicola. C.P.

JT

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/12/14 DUE DATE : 88/01/15
LOG NUMBER : 871229005 FROM : G. Hanselmann & K. H. Huber
SUBJECT : Re: Earlier discussions on increasing WB cooperation with commercial banks on the debt restructuring process.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

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

COMMENTS :

Coming up on 1/29

W/MH as of 2/10/88 (Hanselmann Huber)

Xwida 2/5/88 Checking

Union Bank of Switzerland

Schweizerische Bankgesellschaft
Union de Banques Suisses
Unione di Banche Svizzere

Executive Board

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

7

Zurich, December 14, 1987.

Dear Mr. Conable:

During this year's Annual Meeting of The World Bank you chaired a couple of meetings during which the topic of increased World Bank cooperation with the commercial banks was raised. We were encouraged to hear about the World Bank's intention to take on a larger role in the debt restructuring process which we all hope will eventually strengthen the heavily indebted countries' access to the capital markets. During these discussions you encouraged us to express our opinions in writing as to how from the commercial banks' view we could see an enhanced cooperation between the World Bank Group and commercial banks in this process.

Following that invitation our bank has put some of its thoughts on the subject matter to paper, which you will find summarized in the attached memorandum. We will be delighted to continue the dialogue which we have had with a number of World Bank officials on this and other issues at your convenience.

With best regards,

sincerely yours,
Union Bank of Switzerland

G. Hanselmann	K. Huber
Executive	Senior
Vice President	Vice President

Encl.

February 4, 1988

Dear Dr. Bröder:

I was delighted to receive your letter of December 7, 1987, from Dr. Pais, during his visit to Washington. We have now completed our full review of the proposals and of the specific points raised in your letter.

As I discussed with Dr. Pais, we are looking forward to a fruitful collaboration between the EIB and ourselves in what promises to be an important initiative, welcomed by the Mediterranean countries. I was very pleased to hear of your support for the study, including both a strong EIB staff effort, under Dr. Deleau's leadership, and the substantial contribution your Bank is planning to make toward the consultant costs.

I would also like to refer to the specific points raised in your letter. As I emphasized to Dr. Pais, we fully share the interest in a practical, action-oriented program, and agree on appropriate specialization between the two institutions in terms of tasks (based on your staff's proposals we see no difficulties). Furthermore, we agree that other parties should be encouraged to lend their support, perhaps as the work of the preparation phase nears completion, by the end of this year. As for the budget, I am pleased to confirm that we will commit the necessary resources -- staff and consultant costs -- within the calendar year.

As your staff can explain in greater detail, we expect to use Bank staff from a variety of units, including our central environment department, in carrying out the particular elements in the program for which we are responsible. Overall task leadership is with the EMENA Region under Wilfried Thalwitz; direct responsibility is with David Turnham, Chief of the EMENA Region's Environment Division.

Let me conclude by expressing my satisfaction in the agreement to work together on this program and the good beginning in cooperation between the responsible staff groups. As you know, the environment is high on my personal agenda and I regard the environment program for the Mediterranean as a vital part of this agenda. I look forward to further discussion with you as the work progresses. With my best regards,

Sincerely,

(Signed) Barber B. Conable

Dr. Ernst-Günther Bröder
Chairman
European Investment Bank
100 boulevard Konrad Adenauer
L-2950 Luxembourg

DTurnham/nch
bcc: Messrs. Thalwitz, Bouhaouala

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Christine

June — ask
Chetra
where BBC
follow up
letter
stands

DATE: January 26, 1988

TO: Mr. Moeen A. Qureshi

FROM: W. David Hopper WDH.

EXTENSION: 75678

SUBJECT: Environmental Program for the Mediterranean (EPM) Initiating Memorandum

Reference your memorandum of January 19, 1988 on the above subject, I confirm our support for the EPM as described in the Initiating Memorandum. For your information, VPPRE and the Environment Department have been, and will continue to be, heavily involved in this activity.

cc: Ms. Haug (EXC)
Messrs. Rajagopalan (VPPRE), Picciotto (PBD), Vergin, Baudon (SVPOP), Robless, Abbott (OPNMS), Thalwitz (EMNVP), Bouhaouala, Turnham (EMT), Lee, Harris, Srinivasan, Casley (COD)

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/12/07 DUE DATE : 88/01/04
LOG NUMBER : 871211006 FROM : Dr. Ernst-Gunther ~~Br~~ Bröder
SUBJECT : Following-up on conversation during AMs to participate jointly in an Environmental Programme for the Mediterranean.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

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

COMMENTS : cc: EXT

European Investment Bank

Dr. Ernst-Günther Bröder
Chairman

Mr. Barber B. CONABLE
Chairman
International Bank for
Reconstruction and Development

1818 H. Street N.W.

WASHINGTON D.C. 20433

Luxembourg, 7th December, 1987 CD/87/MD/mel

Dear Mr. Conable,

During the annual meeting of the World Bank in Washington, we agreed that it would be of mutual interest for our two institutions to participate jointly in an Environmental Programme for the Mediterranean. This was followed up at staff level and subsequently discussed by the EIB management committee which approved the EIB's participation in the proposed Programme. In our view there should be a joint and shared responsibility on the part of both Banks for this endeavour.

This opportunity to reinforce a longstanding and successful cooperation between our institutions is particularly gratifying to me, the more so because it bears on issues of great economic and social relevance for the countries and people concerned ; and I announced the decision to our Board of Directors at its meeting of November 10th.

There are three general points that I could see as particularly significant for the evaluation study which is to be completed by the third quarter of 1988. Firstly, the operational aim of developing an effective action programme opening possible opportunities for sound investments should be constantly kept in mind, full use being made of existing experience and knowledge. Secondly, as already planned by our staffs, work should be conducted so as to achieve efficiency on the one hand, through an appropriate specialisation of tasks, and co-responsibility on the other, by full cooperation on the most critical points (terms of reference, selection of consultants, interim and final reports). Thirdly, this programme can, and should, induce interest on the part of others. Association of additional partners could be accomodated at a later stage through appropriate ways which our staffs should propose.

.../...

The management committee decided to make a strong financial commitment to the afore mentioned evaluation study. Since your planned staff resources are more substantial than ours, we are prepared to take the larger share of consultants' expenses, namely a financial involvement of up to $ 400,000 out of a corresponding provisional total cost of $ 630,000 for consultants.

Given this general framework, implementation can be put into effect by the staff members concerned in our respective institutions. They have already established a good basis for cooperation with one another. General coordination of the EIB team involved is to be ensured by Mr. Deleau, deputy manager in the Directorate for Economic Research.

I trust that these arrangements will meet with your approval and look forward to hearing from you in this respect.

With my best regards,

Sincerely,

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 11, 1987

TO: Mr. Barber Conable, President

FROM: Wilfried P. Thalwitz, Vice President, EMENA

EXTENSION: 32676

SUBJECT: Your Meeting with Vice Chairman Arie Pais of the European Investment Bank (EIB)

1. You will be meeting Mr. Pais at 11:00 a.m., Monday, December 14. We understand that Mr. Pais will give you a letter from the EIB confirming their intention to support the Environment Program for the Mediterranean (EPM). This visit follows recent staff level discussions at which the scope of cooperation between the two Banks was defined and the arrangements under which the work on a first preparatory phase of the EPM would be carried out.

Background

2. Under the arrangements, the preparatory phase of the EPM will comprise investment reviews relating to the abatement of pollution from sources around the Mediterranean Basin, notably wastewater and effluent discharges, industrial and energy related emissions, and other discharges, e.g. oil spills from ships. The work will also include selected policy studies, some based on case studies of countries (Tunisia) or cities (Istanbul). The EIB will focus on the EEC-members (who are their borrowers) -- France, Italy, Spain and Greece, and we on our clients, mainly countries along the southern and eastern rim of the Mediterranean. We hope to complete this work by end 1988 and present conclusions and proposals to the Mediterranean countries through their collective organization as Contracting Parties to the Barcelona Convention (dealing with pollution of the Mediterranean) and to other donors. On the investment side, the study would produce a list of priority investments together with costs, possible phasing of a multi-investment program, and financing mechanisms. In subsequent phases, the role of the Bank would be to support implementation of such a program, including financing (together with co-financiers) of investments in our borrowers; and, possibly, some staff support for a unit set up to organize the feasibility studies. The purposes and scope of the EPM have been discussed with the Mediterranean countries, the EEC and the international agencies (OECD, FAO, UNESCO, WHO, etc.) and there is considerable interest in this work.

3. The EIB offer of support is in fact a bit ahead of our readiness to implement the program since we are still discussing the scope of the work and budget for the preparatory phase. The scope of work is to be reviewed later next week, in preparation for the mid-year budget review. Currently, total costs are estimated at about US$1.4 million of which EIB is willing to contribute (we believe) about US$600,000; allowing for a Regional budget contribution, there is a shortfall of approximately US$500,000 to be dealt with.

Message

4. You should say that you have been told by your staff that the problem is indeed significant, and that the proposed initiative can make a genuine contribution towards a solution. In your own agenda for the Bank, environmental concerns are of high priority and you would like to assure the EIB that you will do all in your power to match the effort by the Europeans and bring to bear the Bank's technical expertise. You should further say that you are expecting to receive the papers for your own review within the next month and thereafter hope to be able to provide support for a significant beginning in the work.

DTurnham/nch
0060b

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

December 11, 1987

TO: Mr. Barber B. Conable, President

FROM: Julian Grenfell, VPEXT

SUBJECT: Visit of Mr. Arie Pais
Vice Chairman, European Investment Bank

You have kindly agreed to meet briefly with Mr. Arie Pais at 11:00 a.m. this Monday, December 14.

Mr. Pais combines the posts of Vice Chairman of the Board of EIB and Vice President of the institution. A Dutch national, he was Professor of Economics at the University of Amsterdam, 1966-77, and Minister of Education and Science, 1977-81.

Mr. Pais will be bringing with him a letter setting out EIB's commitment to the Environmental Program for the Mediterranean (EPM). The background to this letter is set out in the attached memorandum. Mr. David Turnham, who heads EMENA's Environment Division and is managing the Bank's input into EPM will join you at the meeting if you so wish.

Mr. Pais, subsequent to his initial request for a meeting, informed us that he also wished to raise two further issues with you:

1. The impact of exchange rate fluctuations on investment decisions.

2. Operations in Yugoslavia.

We see no difficulties over the first issue, but I will find out more precisely what is on his mind when I meet him at 9:15 a.m. on Monday morning, and can advise you of his thoughts on that before he meets you.

As to the second issue, I have discussed the matter with Wilfried Thalwitz who feels that there is really no need for you to give time to Mr. Pais on this question. I will again seek to get more precise information on his intentions at my 9:15 a.m. meeting, and we feel that a meeting for Mr. Pais and Mr. Thalwitz and/or Mr. Eugenio Lari, the responsible Country Director, which can be quickly arranged, can take care of the matter.

Mr. Pais will be accompanied by Mr. Karl Schmidt, head of the External Affairs staff of EIB.

cc: Mrs. Haug and Mr. Stanton o/r (EXC)

J.Grenfell/avs

P-1867

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 8, 1987

TO: Mr. Julian Grenfell, VPEXT

FROM: David Turnham, Chief, ~~EMTEN~~ DT.

EXTENSION: 32502

SUBJECT: Environmental Program for the Mediterranean (EPM) -- Proposed European Investment Bank Discussion with Mr. Conable

1. As I mentioned to you this morning, the European Investment Bank (EIB) Vice-Chairman visiting the Bank next week will bring with him a letter indicating EIB's commitment to the EPM. This was discussed between senior staff of the EIB and the Region during the last annual meeting, and subsequently followed up by staff of this division in Luxembourg and Paris. During the most recent discussions, the EIB informed us that they would commit some ECU 500,000 (approximately US$620,000) to the EPM, including US$270,000 earmarked for use by the Bank for components of the EIB work plan that the Bank will manage. (The balance will be for EIB's staff and consultant costs incurred under general support and studies concerning the EEC Mediterranean Countries.)

2. EIB probably think a meeting with Mr. Conable is appropriate because they see themselves as responding to a special initiative of the President. Public attention -- including a lot of attention in Europe -- was drawn to the EPM by Mr. Conable, in his address to the World Resources Institute in May 1987. You may recall that he proposed "to allocate new resources to a number of environmental initiatives," including participation "in a cooperative effort by the nations of the Mediterranean and other international agencies to prepare a long term compaign to protect that sea and its coasts..." Further, "we are exploring together the possibility of designing a broad, international project to improve the Mediterranean environment and strengthen it with a long term preservation plan."

3. The EPM proposed work program, at the request of Mr. Qureshi, has been put in the form of an initiating memorandum. This is to be discussed this Wednesday at a Bank-wide meeting chaired by Mr. Thalwitz. Thereafter (also following Mr. Qureshi's suggestion), it is likely that the revised memorandum will be brought to the Policy Committee for further review. One issue is a budgetary shortfall of about US$500,000, after allowing for both Regional administrative budget support and EIB support. The draft initiating memorandum (obviously subject to modification after the meeting tomorrow) is attached for your information.

DTurnham/nch

0060b

12/14 AT 11AM.

For J.V.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

December 8, 1987

TO: Mr. J. William Stanton, VPEXT

FROM: Julian Grenfell, VPEXT

SUBJECT: Mr. Conable's Meeting with the Vice Chairman of the E.I.B.

You will recall that Mr. Arie Pais, Vice Chairman of the Board of the European Investment Bank, had requested a brief meeting with Mr. Conable during his 1 1/2 day visit to the Bank, December 14-15, 1987. Before agreeing to this, your office suggested that I find out the precise purpose Mr. Pais had in mind for such a meeting.

I have now established that he is bringing with him a letter from the EIB committing EIB staff and resources to the Environmental Program for the Mediterranean, in response to Mr. Conable's initiative in his World Resources Institute speech.

The EMENA region feel it would be very appropriate for Mr. Pais to be briefly received by Mr. Conable. Mr. David Turnham, EMENA's Environment Division Chief, who is the Bank's man on the Mediterranean Program, is preparing a one-page briefing note for Mr. Conable and will be happy to join him at the meeting if Mr. Conable so wishes.

I will liaise with Jennifer over a time for the meeting.

J.Grenfell/avs

FORM NO. 80
(5—84)

THE WORLD BANK/IFC
MESSAGES

DATE 12/1

TIME 4:21

TO

FROM Julian Grenfell

DEPT./OFFICE

PHONE

EXTENSION 78843

- [x] CALLED
- [ ] CAME TO SEE YOU
- [ ] RETURNED YOUR CALL
- [x] CALL BACK
- [ ] WILL CALL AGAIN
- [ ] REQUESTS APPOINTMENT
- [ ] URGENT

REMARKS

ElB: Pais —

schmidt = go between.

RECEIVED BY

Jen - Isn't this the same one Arlman's office called about and we declined?

Let's first see his full program. - Doak - he ege Queneshr.

NO - THE ONE YOURE THINKING OF IS THE MAN FROM NMB BANK. HE REQU. AN APT W/PAUL VOLCKER.

①LM
②MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/19 DUE DATE : 00/00/00
LOG NUMBER : 871120005 FROM : Julian Grenfell
SUBJECT : Visit of the Vice Chairman of the Board of the European Investment Bank during Dec. 14-15, 1987. Wants appt. w/BBC.
OFFICE ASSIGNED TO FOR ACTION : 3 Mr. M. Qureshi (E-1241)

ACTION:

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

4

COMMENTS : Note: Please inform J. Volk (EXC) of recommendation.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

November 19, 1987

TO: Mr. J. William Stanton, VPEXT

FROM: Julian Grenfell, VPEXT

SUBJECT: Visit of the Vice Chairman of the Board of the European Investment Bank

The European Investment Bank (EIB) has asked us to arrange a program of discussions here at the Bank for Mr. Arie Pais, Vice President and Vice Chairman of the Board of EIB, and a member of its six-person Management Committee, during a visit to Washington on December 14-15, 1987. In addition to requesting meetings with External Affairs, the Environment Department, and those formulating and implementing Bank policy on equal promotion opportunities for women in the staff, he has requested a brief courtesy call on Mr. Conable.

Mr. Pais, a Dutch national, is a former Minister of Education and Science (1977-81) and Professor of Economics at the University of Amsterdam (1966-77).

If Mr. Conable can find 15-20 minutes in his schedule, maybe late afternoon on either the Monday 14th or Tuesday 15th, to meet with him, I think it would be useful to our ongoing efforts to encourage the EIB/World Bank relationship. Our principal interest in EIB is, as you know, as a co-financing partner. While this is not Mr. Pais's principal area of responsibility at EIB, his position in its management makes him a useful interlocutor.

If you agree, would you sound out Mr. Conable on this?

Thanks for your help.

J.Grenfell/avs

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 16, 1987

TO: Mr. Raouf Bouhaouala, Director, EMT

FROM: David Turnham, Chief, EMTEN

EXTENSION: 32502

SUBJECT: Meetings with Dr. Pais of the European Investment Bank

1. I attended two meetings Monday morning with Dr. Pais, firstly with Mr. Warford as Acting Director of the Environment Department and secondly with Mr. Conable. The discussion of the Mediterranean was along the same lines in both meetings. Dr. Pais was indeed carrying a letter confirming the support of the EIB for the EPM; the figure he mentioned to Mr. Conable was US$400,000, but before seeing the memorandum (which is still with Mr. Conable) I am not quite sure to what this figure refers.

2. Apart from the confirmation of support, Dr. Pais had two or three other points to make. Firstly, the EIB were very much emphasizing operational results and they were not interested in an academic study. Second, the EIB wanted to take the lead in Europe according to their comparative advantage, and also to take the lead in a study of private and public cooperation in regard to environment. Thirdly and lastly, the EIB were very much against the involvement of any additional partners in the first phase of the program. In the discussion, some points were made on both sides. Firstly, as regards the EIB preference for taking the lead in Europe, there was no problem and we also agreed that they could take the lead in the public/private study, although we would have some experience also to bring to bear in this activity. Second, while we were in general agreement with the desirability of keeping the management lean to reduce the administrative complications, we did want to reserve our freedom to discuss possible cooperation with the UNDP. Dr. Pais was actually quite reluctant to agree to <u>any</u> form of additional sponsorship of the EPM; however, he did agree that if we could make an arrangement with the UNDP such that they would work with the Bank in a supportive bi-lateral association that they would have no objection to such an arrangement. However, the position was made <u>very</u> clear that the EIB did not want any additional partners in terms of management of the program.

4. In the discussion with Mr. Warford -- which was a meeting focussed more generally on environment -- Dr. Pais made a couple of additional points. Firstly, the EIB had a concession that for environmental lending they could go up to 60% of total costs in

exceptional cases, whereas for other lending the maximum was 50%. Second, while currently the emphasis in environment work was on southern Italy, Greece and to some extent France, the program was expanding "exponentially" in Spain, and although not much of the lending so far was environmental, it could be anticipated that this side of the program would expand in the future. Third, Dr. Pais emphasized that both Europe -- and the Bank as European financier -- were giving tremendous emphasis to environmental problems and were very very serious about trying to deal with them -- this is a life and death matter for Europe, Dr. Pais remarked. However, he also said that the European institutions remained quite weak in dealing with the cross-border issues and he cited the problems of Scandanavia and the problems of dying forests -- both involving trans-national air pollution -- as examples of this weakness.

4. Mr. Conable stated at the beginning of the meeting that the Bank was pleased with the support to the EPM from the EIB and he offered an assurance that we would take care of any budget shortfall by securing support from other sources. This was before hearing Dr. Pais on this issue -- and before reading the letter from EIB, where, apparently, the opposition of the EIB to additional parties is mentioned. The matter was left on the basis that the Bank would handle the budget issue to the satisfaction of the EIB (Mr. Conable mentioned that he regarded the EPM as a presidential initiative), but that the Bank might wish to involve the UNDP along the lines indicated in para. 2 above. Dr. Pais also took the opportunity during his half hour discussion with Mr. Conable to seek the Bank's views on Yugoslavia and how the Bank was coping with the problems caused by the fluctuations in the dollar.

DTurnham/nch

cc: Messrs. Thalwitz, Stoutjesdijk, Ms. Haug, Warford, Whitford

0060b

1 JWS 2 LTM
3 MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/19 DUE DATE : 00/00/00
LOG NUMBER : 871120005 FROM : Julian Grenfell
SUBJECT : Visit of the Vice Chairman of the Board of the European Investment Bank during Dec. 14-15, 1987. Wants appt. w/BBC.
OFFICE ASSIGNED TO FOR ACTION : 4 Mr. M. Qureshi (E-1241)

ACTION:

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

4

COMMENTS : Note: Please inform J. Volk (EXC) of recommendation.

MR. QURESH SAYS NOT HIGH ON PRIORITY
BUT "YES" IF THERE IS TIME.

IF MEETING GOES THROUGH.
+JG + JWS.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

November 19, 1987

TO: Mr. J. William Stanton, VPEXT

FROM: Julian Grenfell, VPEXT

SUBJECT: Visit of the Vice Chairman of the Board of the European Investment Bank

The European Investment Bank (EIB) has asked us to arrange a program of discussions here at the Bank for Mr. Arie Pais, Vice President and Vice Chairman of the Board of EIB, and a member of its six-person Management Committee, during a visit to Washington on December 14-15, 1987. In addition to requesting meetings with External Affairs, the Environment Department, and those formulating and implementing Bank policy on equal promotion opportunities for women in the staff, he has requested a brief courtesy call on Mr. Conable.

Mr. Pais, a Dutch national, is a former Minister of Education and Science (1977-81) and Professor of Economics at the University of Amsterdam (1966-77).

If Mr. Conable can find 15-20 minutes in his schedule, maybe late afternoon on either the Monday 14th or Tuesday 15th, to meet with him, I think it would be useful to our ongoing efforts to encourage the EIB/World Bank relationship. Our principal interest in EIB is, as you know, as a co-financing partner. While this is not Mr. Pais's principal area of responsibility at EIB, his position in its management makes him a useful interlocutor.

If you agree, would you sound out Mr. Conable on this?

Thanks for your help.

J.Grenfell/avs

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 1, 1987

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: Attila Karaosmanoglu AK

EXTENSION: 72283

SUBJECT: PHILIPPINES - Signing of Colenders' Agreement with EXIM Bank, Japan in support of Economic Recovery Program.

1. The signing of the colenders' agreement between the World Bank and the Export-Import Bank of Japan is scheduled to take place following your meeting with Mr. Tanaka, President EXIM Bank, at about 2.30 p.m., Thursday, October 1, 1987. This memorandum is to inform you of the background to the agreement, and the status of the program.

2. The Bank extended a $300 million loan to the Philippines, along with a $10 million Technical Assistance loan, in March 1987, in support of the Government's Economic Recovery Program. The EXIM Bank loan will be signed today in Japan in support of the same program. It is for Y50 billion (US$340 million equivalent) for a period of 15.75 years with 4.75 years grace. A description of the IBRD Loans is attached (Annex 1). The key elements of the program address fundamental problems, resolution of which is considered essential for accelerating economic recovery. These elements include: (i) tax reform, designed to improve the elasticity and efficiency of the tax system while generating higher revenues; (ii) rationalization of trade policies to reduce protection; (iii) restructuring of the public investment program; and (iv) rationalization of government financial institutions to improve efficiency, restore financial viability, and reduce the Government's role in the financial sector.

3. The IBRD loan is to be disbursed in three equal instalments of $100 million. The first tranche has been fully disbursed. A mission will visit Manila in late October to review the situation regarding second tranche conditions.

4. Progress under the Program has been good. Reform of the GFI's is generally on or ahead of schedule, with substantial staff cuts (31% and 43%) at the two main Government banks (Philippine National Bank - PNB, and Development Bank of the Philippines -DBP), implementation of revised operating procedures, and restructuring of liabilities. Import liberalization is ahead of schedule, while the tax reform package is essentially in place. The public investment program has been reviewed by the Bank, and agreement has been reached with Government on priorities and content. The gains made by the economy are significant. GNP is growing at an annual rate of about 5%, following a recession that reduced real GNP by almost 10% during 1984-86. This has been achieved with very

limited impact on inflation, and with a relatively strong external payments and reserve position. The challenge for the Government is to sustain the recovery and complete necessary reforms in the uncertain atmosphere following the recent political upheavals. It remains to be seen how recent events will impact upon private investment which remains both fragile and critical to any sustained recovery.

Attachment

DJarvis:dj

Distribution:

Messrs. Kaji (AS2DR), Sison (ASI), Ikram,
Leipziger, Hicks (AS2CO), Tambe (COF)

Annex 1

PHILIPPINES

ECONOMIC RECOVERY PROGRAM

Loan and Project Summary

Borrower: Republic of the Philippines

Amount: $300.0 million equivalent - Economic Recovery Loan (ERL)
$10.0 million equivalent - Economic Recovery Technical Assistance Project (ERTAP)

Terms: 20 years, including 5 years of grace, at the standard variable interest rate.

Program Description: The proposed program complements past Bank policy-based operations in the Philippines and provides support for the Government's economic recovery efforts. The program addresses fundamental problems which have been outstanding and unresolved for many years and which are considered essential for accelerating the recovery of the economy. These include: (i) tax reforms designed to improve the elasticity and efficiency of the tax system and generate higher revenues; (ii) rationalization of trade policies to reduce protection and improve industrial efficiency; (iii) restructuring of the public investment program to ensure that planned expenditures are appropriate, adequately funded, and support the recovery effort; and (iv) rationalization of government financial institutions to improve their efficiency, restore financial viability, and reduce the Government's role in the financial sector. The main features of the reform are described in the Government's Letter of Development Policy (Annex V). The first loan ($300 million) would finance essential imports based on a standard negative list, and the second ($10 million) would finance technical assistance for institutional strengthening and studies.

The main benefits from these loans will derive from the support it will give to the development efforts of the Government, both by encouraging policy reforms and providing financial support. The program would also help create an environment conducive for foreign creditors to continue their support, as part of the recovery effort of a highly-indebted country. The risks associated with this type of program are mainly those related to possible delays or inadequate implementation. However, the Government's commitment to carry out needed reforms is very high, and a significant number of prior actions have already been taken, particularly in tax and financial sector reform.

Estimated Disbursements: The import component of the program of $300 million equivalent, would be disbursed in three tranches of $100 million each, over a period of two years. The first tranche would be available for disbursement after loan effectiveness. The second and third tranches would be released after meeting certain conditions and the completion of a review of the program of policy reforms. The technical assistance loan of $10 million would be disbursed within 36 months. Cumulative disbursements against the program would be as follows:

Bank FY	1987	1988	1989	1990
	--------- $ million ---------			
Annual				
ERL	100.0	100.0	100.0	-
ERTAP	0.5	2.5	4.0	3.0
Cumulative	100.5	203.0	307.0	310.0

Rate of Return: Not applicable.

Appraisal Report: This is a combined President's and Staff Appraisal Report.

Map: IBRD 20181

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/09/03 DUE DATE : 00/00/00
LOG NUMBER : 870908007 FROM : Rene Karsenti
SUBJECT : BRIEF FOR: Meeting with Mr. T. Takagaki, Senior Managing Director of Bank of Tokyo, on September 11 with Mr. Conable.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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

COMMENTS : Jenny - copy for BBC's follow file.
Marianne - for information.
Note: This was given to EXC by Mr. Stern's Office.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 3, 1987

TO: Mr. Ernest Stern

FROM: Rene Karsenti

EXT: 75893

SUBJECT: **Bank of Tokyo - Visit on September 11 by Mr. T. Takagaki, Senior Managing Director**

The Bank of Tokyo (BOT) is Japan's sole specialized foreign exchange bank which was reconstituted under the Foreign Exchange Bank Law from the Yokohama Specie Bank, Japan's former external financial arm. BOT has only a rather limited domestic deposit base, but its branch network abroad spans all international financial markets and more than 48 countries. Its domestic cost of funds is best approximated by the three-year debenture rate and its Euro cost by LIBOR. With $112 billion in assets at September 30, 1986, it ranks as the 14th largest bank in Japan, between Long-Term Credit Bank and Daiwa Bank, and as the 23rd largest in the world. It enjoys considerable influence in international matters, working closely with the MOF (whose Vice-Minister has become its President) in collecting and interpreting information. It is the Government's sole fiscal agent in London and New York. Thus, one of the Bank of Tokyo's competitive advantages is its ability to read future changes in the Japanese government's international financial policy.

The Bank of Tokyo is a world leader in syndicated loans and private placements in a variety of currencies. It has arranged more Samurai loans over the past 14 years than any other bank. Its participation as lead-manager and agent in long-term syndicated loans to non-residents have ranked second to none. It has served as lead commissioned bank for public Samurai bonds in over 40% of the issues floated since 1970 and as fiscal agent in about half the Euroyen issues ever launched. (Since 1981, however, BOT's dominant role has diminished somewhat; it has served as lead commissioned bank in 36% of Samurai issues and as fiscal agent in 34% of Euroyen issues.) It also used to enjoy privileges over other Japanese banks, including the authority to swap dollars into yen, a lending limit of 40% of capital (compared to 20% for city banks and 30% for long-term credit banks), and liberal access to funds from the Bank of Japan and the money markets. However, like other Japanese banks, it is legally banned from underwriting securities, except, since late 1984, through its foreign investment-bank subsidiaries. Thus, in the Euroyen bond market, BOT's London subsidiary has lead-managed 12 issues, and its London or Dutch subsidiary has been a member of Euroyen management groups in nearly all issues.

Relationship with World Bank. BOT serves as arranger for our LLCC group loans. In addition, it assumed the role of book runner for our first transferable loan with an ad hoc syndicate in 1985. With its growing underwriting capacity, Bank of Tokyo has already become involved as comanager in the World Bank's last Euroyen issues. They are holding ¥5.6 billion of our Samurai bonds. BOT is reportedly an active market maker in Euroyen issues. It also alternates with the Industrial Bank of Japan as principal paying and fiscal agent in our Euroyen public issues. It has served as a listing agent in Luxembourg for Euroyen issues, as well as in Tokyo for Samurai issues on an alternate basis with IBJ. Increasingly, the Bank of Tokyo has been endeavoring to expand its role in the World Bank's borrowing program, particularly in Euroyen as well as other currencies.

cc: Mr. Vergin,
Mmes. Einhorn, Duersten, Mashayekhi (2)
FOD File

LH/jrh

TASUKU TAKAGAKI

Senior Managing Director
The Bank of Tokyo, Ltd.

Address Home :	33-18, Jingumae 3-chome, Shibuya-ku Tokyo 150
Address Office :	3-2, Nihombashi Hongokucho 1-chome, Chuo-ku, Tokyo 103
Date of Birth :	July 7, 1928
Place of Birth :	Tokyo, Japan
Married :	Mitsu Yoshida
Children :	two daughters
Education :	Faculty of Economics, Tokyo University; graduated in March, 1953

Professional Career

April 1953	Entered The Bank of Tokyo, Ltd. Research Division
October 1963	Assistant Manager, New York Agency
November 1966	Sent to Asian Development Bank
May 1971	Counsellor International Investment Division
January 1972	Deputy General Manager International Investment Division
August 1974	Acting General Manager International Investment Division
December 1975	General Manager International Investment Division
October 1976	General Manager Planning Division
June 1979	Director and General Manager Planning Division
February 1980	Director and General Manager Personnel Division

May 1982	Resident Director for Europe General Manager, London Office
October 1982	Resident Managing Director for Europe General Manager, London Office
September 1984	Managing Director
June 1986	Senior Managing Director

FORM NO. 27 - OCR
(3/82)

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

Typewritten Character Must Fall Completely in Box!

PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: EXC

MESSAGE NUMBER:

TEST NUMBER (FOR CASHIER'S USE ONLY):

START HERE

DEUTSCHE BANK, AG., ~~F~~FRANKFURT, GERMANY

FOR: MESSRS. HERRHAUSEN AND GRASNICK

ON BEHALF OF THE STAFF OF THE WORLD BANK, I WISH TO EXTEND TO THE FAMILY OF DR. BLESSING, HIS FRIENDS AND COLLEAGUES, OUR SINCERE CONDOLENCES. BARBER CONABLE, PRESIDENT, THE WORLD BANK.

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: Telex	TELEX NO.: 417300	DATE: Aug. 27, 87
SUBJECT: General	DRAFTED BY:	EXTENSION: 72173
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Barber Conable	
	DEPARTMENT: EXC	
	SECTION BELOW FOR USE OF CABLE SECTION	
	CHECKED FOR DISPATCH	

DISTRIBUTION: WHITE—File Copy CANARY—Bill Copy WHITE—Transmittal Copy BLUE—Originator to Keep

Mr. Conable:

This brings to your attention that FINANCE has sent condolences.

Would you care to send a telex under your signature on behalf of the whole bank?

Yes.

Jennifer

8/26/..

Typewritten Characte Must Fall Completely in Box!

PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: VPTRE

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

DEUTSCHE BANK , A.G., FRANKFURT, GERMANY

FOR: MESSRS. HERRHAUSEN AND GRASNICK

ON BEHALF OF THE FINANCE STAFF OF THE WORLD BANK , I WOULD LIKE TO OFFER DR. BLESSING'S FAMILY, FRIENDS AND COLLEAGUES OUR MOST SINCERE CONDOLENCES.

RESPECTFULLY, HEINZ VERGIN, ACTING SENIOR VICE PRESIDENT, FINANCE

THE WORLD BANK

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: Telex	TELEX NO.: 417300		DATE: Aug. 25/87
SUBJECT: General	DRAFTED BY: HV:mj		EXTENSION: 7-2228
CLEARANCES AND COPY DISTRIBUTION: cc: Messrs. Stern - o/r Inakage/Bock	AUTHORIZED BY (Name and Signature): Heinz Vergin		
	DEPARTMENT: VPTRE		
	SECTION BELOW FOR USE OF CABLE SECTION		
	CHECKED FOR DISPATCH		

DISTRIBUTION: WHITE—File Copy CANARY—Bill Copy WHITE—Transmittal Copy BLUE—Originator to Keep

① ~~BBC FYI~~
② MH "
③ CP (D-2)

The World Bank

ERNEST STERN
Senior Vice President
Finance

June 18, 1987

Mr. Conable

Barber:

The attached answers the incoming request from D.G. Bank to be included in a syndicate. It is very important that neither you nor I become involved in the market decisions of the Treasurer's Department. To avoid any signal that either the President or senior managers can be drawn into such issues, I asked Mr. Vergin to answer the incoming.

Ernie

Attachments

EXC 87-06-05-007

Typewritten Character Must Fall Completely in Box!

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PAGE	OFFICIAL DEPT/DIV ABBREVIATION	MESSAGE NUMBER	TEST NUMBER (FOR CASHIER'S USE ONLY)
1 OF 2	TREVP		

DEUTSCHE GENOSSENSCHAFTSBANK

FRANKFURT, GERMANY

ATTENTION: MR. HELMUT GUTHARDT

(1) THIS RESPONDS TO YOUR FAX MESSAGE OF JUNE 5 ADDRESSED TO THE PRESIDENT OF THE BANK REGARDING THE ALTERNATIVE SYNDICATE FOR OUR PUBLIC DM-BOND ISSUES. YOU WILL APPRECIATE THAT CONSIDERABLE THOUGHT HAS GONE INTO THE DECISION TO ESTABLISH AN ALTERNATIVE SYNDICATE FOR OUR PUBLIC DM-BOND ISSUES AND INTO SETTING THE CRITERIA WHICH ARE GUIDING US IN OUR SELECTION OF THE MEMBERS OF THIS SYNDICATE.

(2) OUR OBJECTIVE AS COMMUNICATED TO YOUR ASSOCIATES WILL BE TO BRING TOGETHER A RELATIVELY SMALL COMPLEMENT OF ACCOMPLISHED PLACERS AND MARKET MAKERS OF WORLD BANK PAPER SO AS TO PRICE AND PLACE AS EFFICIENTLY AND FAIRLY AS POSSIBLE OUR ISSUES IN A MARKET ENVIRONMENT THAT IS CHARACTERIZED BY SUBSTANTIAL INTERNATIONAL DEMAND. WE HAVE TAKEN THE OPPORTUNITY OF MR. SCHMIDT-WEYLAND'S VISIT AND THE INFORMATION THAT HE AND SUBSEQUENTLY MR. FLACH CONVEYED TO REVIEW ONCE AGAIN THE ADDITIONAL CONTRIBUTION THAT DG-BANK COULD MAKE TO THE ACCOMPLISHMENT OF THAT OBJECTIVE. WE REGRET THAT THESE INTENSIVE DELIBERATIONS HAVE NOT PRODUCED THE ARGUMENTATION AND EVIDENCE THAT WOULD LEAD US TO INCLUDE DG-BANK

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX | TELEX NO.: | DATE: 6/17/87

SUBJECT: | DRAFTED BY: HV:di | EXTENSION: 72228

CLEARANCES AND COPY DISTRIBUTION:
cc: Mr. Conable (thru Mr. Stern)
Mr. Stern
Mr. Rotberg (o/r)
Mrs. Einhorn/Mr. Karsenti/
Mrs. Folkerts-Landau

AUTHORIZED BY (Name and Signature): Heinz Vergin

DEPARTMENT: TREVP

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2. Align First Characters at Line Number 1.

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PAGE 2 OF 2 | OFFICIAL DEPT/DIV ABBREVIATION: TREVP | MESSAGE NUMBER | TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

IN THE CONTEMPLATED SMALL MANAGEMENT GROUP OF ABOUT TEN MEMBERS INCLUDING THE LEAD MANAGER. WHILE WE MAY MAKE DECISIONS WITH WHICH YOU CANNOT ALWAYS AGREE, I HOPE YOU WILL ACCEPT OUR ASSURANCE THAT IN THESE DELIBERATIONS, WHICH HAVE BEEN SHARED WITH SENIOR MANAGEMENT, WE HAVE RECOGNIZED THE VALUE OF YOUR PAST SUPPORT. WE HAVE APPRECIATED THE FRANKNESS WITH WHICH YOUR ASSOCIATES HAVE APPROACHED THE RECENT DISCUSSIONS AND ARE LOOKING FORWARD TO MUTUALLY BENEFICIAL UNDERTAKINGS WITH DG-BANK IN OTHER AREAS, WHETHER ESTABLISHED OR NEW.

SINCERELY, HEINZ VERGIN, ACTING VICE PRESIDENT AND TREASURER, WORLD BANK.

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: | TELEX NO.: | DATE:

SUBJECT: | DRAFTED BY: | EXTENSION:

CLEARANCES AND COPY DISTRIBUTION: | AUTHORIZED BY (Name and Signature): Heinz Vergin

DEPARTMENT:

SECTION BELOW FOR USE OF CABLE SECTION

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2. Align First Characters at Line Number 1.

FACSIMILE MESSAGE DG BANK Deutsche Genossenschaftsbank

Please forward copy to the appropriate
Information Center as necessary

RECEIVED
EXC
1987 JUN -5 PM 1:39
CABLE SECTION

FAX MESSAGE/COVER MEMORANDUM

Date: June,5 1987

Fax No.: 202 477 8164

To.: World bank

(Country): Washington, D.C.

[redacted]

*IMPORTANT

From: Dg Bank, Deutsche Genossenschaftsbank,Frankfurt

We are transmitting on a Kalle Infotec 6400.

Total number of pages (including this cover memorandum) 2

<u>If you do not receive all pages, please telephone or telex immediately!</u>

Office telephone: 069/7447-

Telex: 412291

Telefax-No.: 7447-1685

Re.:

Supplemental Message

DG BANK
Deutsche Genossenschaftsbank

2080/En/nh/481

BY TELEFAX

1 Page

fm: DG BANK
Deutsche Genossenschaftsbank
Frankfurt am Main
FRG

to: WORLDBANK
Washington D. C.

Attn.: Mr. Barber B. Conable
President

June 5, 1987

Dear Mr. Conable,

I have been informed by Deutsche Bank of your intention to establish an alternative syndicate of your public DM-bond issues. I am very disappointed and surprised that DG Bank apparently has not been included in the syndicate.

DG Bank has raised more funds for the Worldbank than any other German bank - apart from the lead manager of your traditional German syndicate. This is also the case for secondary market making in your DM-bonds.

Mr. Heinz Vergin, Director of your Financial Operations Department, has the details on our activity with your esteemed bank.

I sincerely hope that you will support us by including DG Bank in this new syndicate.

Yours faithfully,

H. Guthardt
Chairman

FORM NO. 1766
(3/83)
Typewritten Character Must Fall Completely in Box!

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

PAGE 1 OF 1 | OFFICIAL DEPT/DIV ABBREVIATION: FODDR | MESSAGE NUMBER: | TEST NUMBER (FOR CASHIER'S USE ONLY):

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DEUTSCHE GENOSSENSCHAFTSBANK

FRANKFURT

FEDERAL REPUBLIC OF GERMANY

ATTN: MESSRS. FLACH AND WOLFERTS

TELEX NO. 4 12 291

THANK YOU FOR YOUR TELEX OF JUNE 4.

AS I EXPLAINED TO YOU IN OUR EARLIER TELEPHONE CONVERSATION, THE MEMBERS OF THE SYNDICATE THAT WILL UNDERWRITE OUR NEXT DM PUBLIC ISSUE CANNOT BE DEFINITELY SELECTED UNTIL THE TIME THAT WE PLAN TO LAUNCH THE ISSUE. AS YET, A DATE HAS NOT BEEN FIXED. NONETHELESS, WE HAVE ALREADY GIVEN CONSIDERABLE THOUGHT TO THE CRITERIA THAT SHOULD GUIDE OUR SELECTION PROCESS. OUR OBJECTIVE WILL BE TO BRING TOGETHER A COMPLEMENT OF ACCOMPLISHED PLACERS AND MARKET MAKERS OF WORLD BANK PAPER SO AS TO EFFECTIVELY PRICE AND PLACE THE ISSUE IN THE MARKET ENVIRONMENT THEN PREVAILING. AGAINST THAT BACKGROUND, I LOOK FORWARD TO DISCUSSING THIS MATTER FURTHER DURING THE UPCOMING VISIT OF MR. SCHMIDT-WEYLAND.

SINCERELY, HEINZ VERGIN, DEPUTY TREASURER, WORLD BANK.

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX
TELEX NO.:
DATE: June 9, 1987

SUBJECT:
DRAFTED BY: JPE/EFL
EXTENSION: 76348

CLEARANCES AND COPY DISTRIBUTION:
cc: Mr. Karsenti, Mrs. Folkerts-Landau
Files: DG-Bank, Int'l Syndicate Germany

AUTHORIZED BY (Name and Signature): H Vergin, Dep. Treasurer

DEPARTMENT: TREASURERS

SECTION BELOW FOR USE OF CABLE SECTION

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2:30 cancelled for 5/19 due to Brd. schedule

JU (follow file)

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/05/13 DUE DATE : 00/00/00
LOG NUMBER : 870513023 FROM : VPCOF
SUBJECT : Brief for: Meeting with Michael McWilliam, Standard Chartered Bank, London and Mr. M. Benjenk (former VP for EXT) on May 19.
OFFICE ASSIGNED TO FOR ACTION : Mr. Barber Conable E1227

ACTION:

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

COMMENTS :

5/19.

Briefing Paper
for Mr. Conable's Meeting with:

Mr. Michael McWilliam, Group Managing Dir., Standard Chartered Bank, London
Mr. Munir Benjenck (former IBRD VP for External Relations)

2:30 P.M., Tuesday, May 19, 1987

Standard Chartered Bank is one of the major international banks (total assets US$46.0 billion). In July last year, Standard Chartered successfully resisted a takeover bid by Lloyds Bank. It has had a long history of playing an active role in international banking. In 1986, it ranked 22nd among the top 50 lead managers of syndicated Euroloans, accounting for US$2,378 million in 31 transactions.

Standard Chartered has played a significant role in cofinancing operations with the World Bank. It was involved in two operations under the old parallel cofinancing techniques (1976-1983). It provided US$2.0 million to the Argentina DFC-Industrial Credit I Project and US$5.0 million to the Yugoslavia Highways XI Project approved in FY77 and FY80, respectively.

Since the inception of the Bank's B-loan program in 1983, Standard Chartered Bank has been involved in five B-loans for an aggregate amount of US$27.7 million. (Details are listed below.) The Colombia operation, signed in June 1984, was one of the earliest B-loans approved under the B-loan program and was one in which Standard's role was that of co-manager. The Chile and Uruguay B-loans were part of negotiated "new money" packages for middle-income, high-debt countries where Standard's participation was largely determined by their existing exposure. Standard Chartered was also one of several lead-managers in the Turkey Financial Sector Adjustment (Eurodollar) B-loan.

A new unit was recently established to commence operations in the secondary market for LDC debt and debt/equity swaps.

Standard Chartered Bank
B-loan Cofinancing with the World Bank
FY84-FY87

FY	Country	B-loan (Project)	US$M	Role
84	Colombia	FEN Power	8.3	Co-Manager
85	Hungary	Industry and Petroleum	12.5	Lead-Manager
86	Chile	Roads III	1.6	Participant
87	Turkey	Financial Sector Adj.	5.0	Lead-Manager
87	Uruguay	Power Sector Rehab.	0.3	Participant

VPCOF
5/87

away
on
mission

ISAAC

DO YOU THINK
ES SHOULD ATTEND
(OR BE GIVEN THE
OPTION TO ATTEND)?

I HAVE ASKED
LUDVIK FOR A BRIEF —
SHOULD HE ATTEND

JHr.

Standard Chartered

160 Water Street, New York, N.Y. 10038-4995 Telephone (212) 269-3100

5/19 at 2:30

29 April 1987.

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

Dear Mr. Conable,

Mr. Michael McWilliam, Managing Director and Chief Executive Officer of Standard Chartered Bank, London, has asked me to let you know that he will be visiting Washington on Tuesday, May 19, and would be grateful if he could call on you on that day.

In terms of its overseas assets, Standard Chartered Bank is the second largest British Bank, and the fifth largest overall. It has for a long time been interested in joint financing with the Bank and a number of co-financing operations have been concluded in various parts of the world. It has also been active in arranging bridging financing for pending I.M.F. operations.

Mr. McWilliam remembers with pleasure his conversation with you at the Bank of England during your visit to London last October.

With best personal regards,

Yours sincerely,

Munir P. Benjenk

Senior International Adviser

1 ISAAC

JWS says "yes". Please advise your thoughts. Ludvik again?

(ISAAC SAID YES)

2 JV.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 17, 1987

TO: Mr. Isaac Sam, EXC

C.L.

FROM: Carl W. Ludvik, VPCAU

EXTENSION: 72383

SUBJECT: Barclays Bank

Visitors:

John Quinton, Deputy Manager
H. Norrington, Sr. General Manager
B. Pearse, General Manager

Barclays is one of the major international banks (total assets US$117 billion); however, they have never shown much enthusiasm for cofinancing with the Bank since we began formal cofinancing programs about 10 years ago. A number of contacts over the years between Bank staff and Barclays staff in Washington, London, and New York have produced few operations.

Barclays was involved in only one cofinancing operation under the old parallel cofinancing technique (1976-1983). They provided US$5 million as a participant in a syndicated loan to Yugoslavia for the Highways XI project in FY1980.

Since the inception of the B-loan program in 1983, they have been involved in the three operations listed below. In the Ivory Coast loan, Barclays was brought into the syndicate by the French bank that arranged that loan. The last two operations (Chile and Uruguay) were part of negotiated "new money" packages for high-debt countries where Barclays' participation was largely determined by their existing exposure.

Barclays Bank also acts as the Chairman of the Nigeria Advisory Committee, and in this capacity they are experiencing what is probably their first extensive dialogue with Bank staff. We have heard some informal indications that Barclays management may now be interested in establishing a closer working relationship with the Bank. In view of their importance as an international bank, we hope to encourage this trend.

Barclays' Participation in B-Loans

FY	Country	Project	US$m	Role
86	Ivory Coast	Highway Sector II	4.8	Lead Manager (one of several)
86	Chile	Roads III	2.7	Participant
87	Uruguay	Power Sector Rehabilitation	1.4	Participant

MR JOHN QUINTON

Mr John Quinton has been a deputy chairman of Barclays Bank and chairman of Barclays Bank UK since March 1985.

He was born in Norwich, educated at St John's College, Cambridge, and joined Barclays in Norwich in 1953.

After branch and inspection work he was seconded in 1960 to the Economic Studies Department of the Société Générale in Paris. In 1961 he returned to the UK to be an assistant manager of Barclays' 160 Piccadilly branch, then deputy principal of the bank's Staff Training Centre at Wimbledon and, in 1964, manager of King's Cross branch.

After two years with the Ministry of Health as principal in the International Division and UK Delegate to the World Health Organisation in Geneva, he returned to Barclays as local directors' assistant at Liverpool Local Head Office.

In 1968 he became an assistant general manager of the bank with special responsibilities for the merger with Martins Bank, and the following year he became a local director in Nottingham.

After four years as a regional general manager he was appointed in 1975 a general manager of the bank, a director of Barclays Bank UK and deputy chairman of Mercantile Credit Company. He also became a non-executive director of Barclays Merchant Bank.

In 1982 he was appointed senior general manager and a director of Barclays Bank. Following the merger of Barclays Bank and Barclays Bank International on January 1, 1985, he became vice chairman of Barclays Bank.

A married man with a son and a daughter, Mr Quinton plays tennis and golf.

Continued...

He is a member of the North East Thames Regional Health Authority and the CBI Central Council and Economic and Financial Policy Committee, and is treasurer of the Institute of Bankers and Business in the Community.

From 1982 to 1983 he was chairman of the Chief Executive Officers of the Committee of London Clearing Bankers and from 1982 to 1985 he was a member of the Accounting Standards Committee. For five years from 1981 he was a member of the City Capital Markets Committee.

Mr Quinton is currently chairman of the Advisory Council of LEntA and a Governor of Motability.

October 1986

MR HUMPHREY NORRINGTON

Mr Humphrey Norrington is an Executive Director of Barclays Bank PLC with particular responsibility for Overseas Operations.

Born in Oxford and educated at Winchester and Oxford, 50 year old Mr Norrington joined Barclays in 1960 at Melbury Court, Kensington branch. He gained further banking experience in London and Luton.

In 1965 he was appointed assistant manager at St Albans and was promoted local directors' assistant at Barclays Leeds Local Head Office the following year. He transferred to the bank's Head Office in London as a general managers' assistant in 1967, and became a local director of the Manchester district two years later.

After six years as senior local director of the bank's Darlington district, Mr Norrington became regional general manager of Barclays' North West region in 1978 and subsequently a regional general manager of the London region. He was appointed a general manager of Barclays Bank UK in 1981, became Senior General Manager, Finance in January 1985, a Deputy Chief General Manager in January 1986, and took up his present position in March 1987.

Married with two sons and two daughters, Mr Norrington lives in Berkhamsted. He is a member of the Finance Committees of the British Red Cross Society and the National Association of Boys' Clubs, and is involved with a number of other charities.

March 1987

Ann Rowe

BRIAN G. PEARSE
Chief Executive Officer
Barclays Bank PLC in North America
Chief Financial Officer, Barclays Bank PLC

Brian Pearse, Chief Executive Officer for North America, will return to the U.K. to take a new post as Chief Financial Officer. In this post he will be responsible for all financial aspects of the Bank, plus planning, risk management and Treasury.

As Chief Executive Officer, Mr. Pearse has been responsible for Barclays operations in the United States and Canada. These include: Barclays Bank of California, Barclays Bank of New York, BarclaysAmerican-Corporation, BarclaysAmerican/Business Credit, Barclays Bank of Canada and the Barclays Bank PLC offices. Mr. Pearse assumed this post January 1, 1983.

Mr. Pearse joined Martins Bank in 1950 where he served in several branches in the North of England and held managerial appointments in Bradford, Sheffield and Leicester.

Martins merged with Barclays in 1969, and during the period 1972-77, Mr. Pearse was a Local Director in the Birmingham Local Head Office.

Prior to coming to the United States, Mr. Pearse was a General Manager and a Director of Barclays Bank U.K., responsible for the retail services of Barclays in the United Kingdom.

He was educated at St. Edwards College at Liverpool, England, and his main interests are rugby football, which game he refereed for many years, opera and the theatre.

Mr. Pearse serves as a Vice Chairman of the International Business Committee at New York's Metorpolitan Museum of Art and most recently, he was elected a Vice President and member of the Board of Trustees of the Institute of Foreign Bankers, Inc.

He is married with three children.

SecM87-399

From: Senior Vice President, Operations

April 16, 1987

NIGERIA - Progress of the Trade Policy and Export Development Loan

1. As provided in Section 3.04 of the Loan Agreement for the Trade Policy and Export Development Loan to Nigeria (Loan No. 2758-UNI), discussions were held in Lagos during recent weeks on the progress achieved in carrying out the program assisted by the Loan. This memorandum summarizes the progress achieved under the program during 1986 and 1987, and in the fulfillment of the criteria agreed during negotiations for release of the loan's second tranche.

I. DEVELOPMENTS IN 1986 AND 1987

2. The program of reforms supported by the Trade Policy and Export Development Loan is concentrated on three areas: exchange rate realignment; trade policy reform; and export incentive measures. The following paragraphs describe the progress in implementation of the action program in the different policy areas and the progress in external financing of the adjustment program.

Exchange Rate Realignment

3. The program called for the establishment of a second-tier foreign exchange market (SFEM) in which the exchange rates for transactions were to be determined by the forces of supply and demand. SFEM was intended to ensure a more efficient utilization of foreign exchange and to determine the real economic value of the Naira.

Distribution:

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

*Questions on this document may be referred to Mr. V. Bhargava (Ext. 34590) or Ms. J. Salop (34868)

4. The SFEM came into operation on September 26, 1986, and upon its introduction, the official value of the Naira depreciated immediately from ₦1.3=US$1 to ₦4.6=US$1. Since then, the Naira has averaged ₦3.7=US$1 in the twenty-five auctions through April 2, 1987.

5. The SFEM has brought about a major improvement in access to foreign exchange. It is structured along the lines of an inter-bank system involving foreign exchange dealings between the Central Bank of Nigeria (CBN) and authorized foreign exchange dealers, between the dealers and the public, and among the dealers themselves. In the first segment of the SFEM CBN sold US$1.4 billion to authorized dealers at an average weekly rate of about US$59 million in the 24 bidding sessions held up to end of March 1987. In the first 16 weeks of SFEM operations it is reported that US$329 million was purchased from the public by authorized dealers in the second segment of the SFEM, thus significantly augmenting about US$1 billion sold by the CBN during the same period. The third segment of the SFEM covers inter bank dealings whereby banks with surplus funds sell them to other banks in need of funds. After some initial hesitation this segment is now functioning with growing effectiveness. Overall the SFEM is operating satisfactorily and has been well received by the public.

6. The introduction of the SFEM was accompanied by a significant liberalization of controls over holding and use of foreign exchange. The SFEM decree abolished all requirements for the surrender of foreign exchange, and stipulated that non-oil exporters could retain 100 percent of their foreign exchange earnings, albeit in domiciliary accounts. Exporters are free to convert their export proceeds to Naira at their convenience in the SFEM, but withdrawals in foreign exchange remain subject to the same controls as apply to other SFEM importers.

7. The program specified that the first-tier exchange rate would be adjusted toward the SFEM rate, with a view to achieving a unification of the rates by end June 1987. The Government has been making downward adjustments, and by April 12, 1987 the first-tier rate was at ₦3.5=US$1.

8. Some of the effects of SFEM are now becoming apparent. The devaluation of the Naira has rekindled interest in production of exportable agricultural commodities, and increased exports of certain products such as cocoa are reported. Non-oil exports generally have increased, with commercial banks reporting sizeable increases in inflows from these exports. The bulk (70 percent) of foreign exchange sold at SFEM has been used for import of raw materials, spare parts and intermediate goods for the industrial sector. As these imports flow into the economy, an increase in capacity utilization and production in the industrial sector can be expected. However, tight restraints on the demand side will place a limit on industrial growth during the course of 1987.

Trade Policy Reforms

9. The action program in this area called for the removal of import and price controls and the restructuring of tariffs.

10. Virtually all price controls and import licensing were abolished at the start of the SFEM, and the number of items subject to import prohibition was reduced from 74 to 16.

11. The Government abolished the 30 percent import surcharge and (in October 1986), implemented an interim revision in the import duty and excise schedules, which reduced the average level and dispersion of rates. The revision followed guidelines agreed with the Bank, and brought about a fall in the trade-weighted average customs duty from 35 percent to 25 percent. Most rates were concentrated in the range 10 percent to 30 percent; however, a range of agricultural and industrial products, imports of which compete with major domestic producers still attract higher nominal rates (up to 60 percent), and some luxury goods (e.g. motor vehicles) are subject to rates of 100 percent or more. The removal of import licensing has effected a major transformation in the protection regime, so that the tariff is now the principal instrument of protection of production for the domestic market.

12. Since implementing the interim tariff, the Government has made two further adjustments to tariffs and excises. Tariffs on 18 items were reduced in the 1987 budget, and tariffs and excises affecting a further 21 product groups were adjusted late in February. While some of the latter changes corrected anomalies caused by the earlier adjustment, some changes involved increases in nominal and effective protection for certain domestic producers.

13. The loan agreement calls for a comprehensive tariff review to be carried out and implemented later in 1987, and all of the recent adjustments will be reconsidered in this review.

Export Incentive Measures

14. The Government has taken action on several policy fronts to promote exports, and has taken steps toward putting in place a range of export incentive measures.

15. In addition to reform of the foreign exchange regime, and abolition of surrender requirements for exporters, the Government has eliminated export licensing, abolished export prohibitions, and removed export duties. The six agricultural commodity boards and their monopoly export powers have also been abolished. The Government has also simplified export procedures and documentation.

16. In accordance with the action program for the Trade Policy and Export Development Loan, the Government has:

- Approved guidelines for operation of a Duty Drawback/ Suspension Scheme.

- Issued guidelines for a Rediscounting/Refinance facility for Exporters.

- Submitted for consideration by the Federal Executive Council proposals for reorganizing the Nigerian Export Promotion Council and enhancing private sector participation.

- Prepared a draft paper on an initial multi-year organizational strategy for NEPC. Finalization and approval will await appointment of the new NEPC board and management.

17. Introduction of the SFEM has, by establishing a realistic exchange rate for exporters to convert their foreign exchange earnings to Naira, provided a powerful incentive for exports. As discussed above, the impact of this profound change on non-oil exports is already being realized. Preliminary figures indicate that the inflows to commercial banks from non-oil exports were US$7.9 million in October 1986, US$14.6 million in November, US$24.6 million in December, and US$24.3 million in the first three weeks of January 1987.

18. Financing. Considerable progress has been made on the financing of the adjustment program. Following a lengthy period of negotiations, the Nigerian Government, in mid-November, formally requested a rescheduling and new money package from its commercial bank creditors. This triggered effectiveness of the Trade Policy Loan, and the disbursement of the first tranche of US$250 million toward closing the financing gap. To date, over 90 percent of banks, by exposure, have signalled their willingness to accept the proposed terms. In mid-December, Nigeria negotiated an agreement with the Paris Club for the rescheduling of medium- and long-term debt and insured trade arrears. The bilateral agreements are in the process of being signed. The combined value of the London and Paris Club rescheduling packages totals some US$10 billion, including US$320 million in new money from the commercial banks. The new money from the Paris Club is to be on a bilateral basis, following the reopening of cover by export credit agencies. Negotiations with promissory noteholders and uninsured trade creditors are still in an early stage.

19. The economic forecast for 1987 given in the President's Report recommending the loan has been revised. New money inflows from the Paris Club are now expected to be less, while debt service is running higher than previously thought. This has necessitated a substantial reduction in the import forecast. Rather than the US$6 billion originally contemplated, some US$5.1 billion now appears likely. In turn, this will have serious implications for output growth. Under the new assumptions, non-oil GDP is forecast to grow by some 2 percent in real terms, compared with 3 percent in the President's Report. Forecast growth in overall GDP has fallen even more, reflecting the coincident downward revision in oil production in line with the OPEC quotas adopted in December. However, the effect of the latter on the balance of payments forecast is minimal, with lower oil volumes broadly offset by higher oil prices.

II. PROGRESS AGAINST TRANCHE RELEASE CRITERIA

20. The following specific criteria for second tranche release are listed in Schedule 1 to the Loan Agreement.

(a) Satisfactory progress achieved by the Borrower in the carrying out of the program; and

(b) release by the Borrower of adequate funds for the efficient operation of the SFEM.

21. While the Government's actions described earlier meet the first criterion, performance with regard to SFEM funding has been affected by a number of factors. Contrary to understandings with the Bank and the IMF, oil export revenues have been diverted into special "dedication" accounts--to fund certain public sector projects. In addition, foreign exchange use by the public sector at large has been higher than projected. At the same time, the Government has funded SFEM at an unsustainable rate. As a result, Central Bank foreign exchange resources that might otherwise have been used for debt servicing or for reserves have been depleted.

22. During recent Bank staff reviews, the funding of SFEM was discussed with senior Government officials as well as with the acting Head of State. Urgent remedial measures were recommended. As a result, the Government has closed all the dedication accounts, with the exception of one earmarked for a project that is not yet operational. The funds accumulating in this account are being made available to the CBN for reserves. The Government has also approved a revised foreign exchange cash flow, which accords first priority to debt service and the payment of arrears. Public sector foreign exchange use has been cut to a minimum and the size of the foreign exchange auction has been reduced to a sustainable level. These measures are broadly in line with Bank and Fund staff recommendations. Their implementation is expected to rectify the difficulties identified so far with respect to the funding of SFEM, and to be sufficient to avert a foreign exchange crisis. However, in the face of any future shortfall in foreign exchange revenues or unforeseen rise in debt service obligations, public sector spending would need to be cut back further or, failing sufficient room there, the size of the foreign exchange auction would need to be reduced.

III. Relations with the IMF

23. In mid-December, the IMF Executive Board conditionally approved a 13-month stand-by arrangement in support of the program. It was fully approved in January when the critical mass of the commercial banks had expressed willingness to participate in the rescheduling package. The Fund in a recent mission to Lagos was unable to complete the first review under the stand-by, partly on account of the above-mentioned difficulties in public sector spending. However, recent talks with the Minister of Finance

and the Governor of the Central Bank have been productive, and a mission is scheduled for end April to complete the review.

IV. Conclusions

24. Slippages in implementation in some areas notwithstanding, the Government's performance in carrying out the structural adjustment program is satisfactory, and the criteria for disbursement of the TPEDL's second tranche have been met. The Government of Nigeria, therefore, has been advised of the availability of the second tranche of US$200 million. However, the management of Nigeria's foreign exchange cash flow remains a critical issue and will need close monitoring in the coming months.

Ernest Stern

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

BARBER B. CONABLE
President

April 2, 1987

Dear Jack:

Thank you for your letter of March 13, 1987, concerning the coverage of aircraft leases against non-commercial risks jointly by MIGA and private insurers. The concept set out in your letter and elaborated in the Trade Finance article has a number of features which should fit well within the MIGA framework. The proposal related to aircraft leases is consistent with MIGA's mandate to develop joint insurance programs with private underwriters in order to leverage its limited capacity and with MIGA's design to facilitate investment arrangements that rely for repayment on the assets and earning capacity of a specific project.

As Ibrahim Shihata has explained to Jack Pierce, the author of the Trade Finance article, several issues still need to be clarified before MIGA's ability to provide coverage of aircraft leases can be assessed. In particular, it is presently envisaged that operating leasing agreements will be covered by MIGA only if the rental payments are substantially dependent on the returns of the investment project rather than being fixed in advance with respect to amounts and maturities. Moreover, many of the questions involved can best be explored in the context of a specific project and the necessary decisions made in due course by MIGA's management with the concurrence of its Board of Directors. At that time, the willingness of private insurers to provide coverage in conjunction with MIGA will also be tested.

We are working now towards MIGA's speedy creation and expect that discussions on the conditions under which MIGA could provide coverage would continue with MIGA's management as soon as the Agency is established. In the meantime, I am looking forward to discussing this and other matters of mutual interest with you when you are next in Washington.

With best regards.

Sincerely,

(Signed) Barber B. Conable

Mr. John M. Hennessy
Chairman and Chief Executive
Credit Suisse First Boston Ltd.
22 Bishopsgate
London EC2N 4BQ
United Kingdom

JVoss/ELMeigher:as

Cleared by: I.F.I. Shihata

logged mt 4/3/87

August 11, 1986

Dear Mr. Auberger:

Thank you for your kind letter of July 21. Your expression of support has been most welcome as I have assumed my responsibilities as President of the World Bank.

The World Bank values highly its relationship with Credit Agricole both the many cofinancing operations which have been arranged and the recent support of our borrowing operations. It is the combined effort of institutions such as ours which offers the greatest hope for growth in the developing world. Such joint efforts will become increasingly important as we confront the difficult economic situation prevailing in the world today.

Again, thank you for your support. I look forward to working with you and Credit Agricole in the future.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. B. Auberger
Director General
Caisse Nationale de Credit Agricole
91-93 Boulevard Pasteur
75015 Paris
FRANCE

bcc: Mrs. Helene Ploix
Executive Director

cc: Messrs. Stanton, Qureshi, Mistry (o/r), and Bock
Mrs. Smith

20199
8/5
(1)

1051

CAISSE NATIONALE DE CRÉDIT AGRICOLE

Le Directeur Général

Paris, le July 21st, 1986

Dear Mr. Conable,

At the occasion of your nomination as President of the World Bank group, I would like to send you my most sincere congratulations.

For many years, the Credit Agricole has worked closely with the World Bank in cofinancing operations, and more recently, participated in its funding on the International Capital Market.

I am convinced that during the period of your presidency, we will not only continue but further expand our longstanding fruitful co-operation.

With best regards,

Yours faithfully,

B. AUBERGER

Mr. Barber CONABLE
President of the
World Bank
1818 H Street NW
WASHINGTON, DC 20 433
U.S.A.

August 6, 1986

Dear Scott:

Many thanks for your kind words of encouragement. It was very good to hear from you.

I am daily more convinced that a central role for The World Bank is indispensable to the international community's efforts to help the developing countries achieve sustained development. With regard to Japan, we certainly look forward to seeing that country's role in the Bank strengthened and her considerable assets made available in still greater measure to help the international development process.

I really appreciate your writing.

With best regards,

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. Scott E. Pardee
Vice Chairman
Yamaichi International (America), Inc.
Two World Trade Center
Suite 9650
New York, NY 10048

cc: Mr. Stanton
Ms. Maguire

J.Grenfell/avs 08/05/86
#895

895
FORM NO. 89
(2-83)

30

THE WORLD BANK

ROUTING SLIP	Date July 18, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Botafogo	E823
~~A. Vogl~~	
MR. Grenfell — (FYI Pardee used to be at NY Fed : perhaps now VP cofinancing would want to move on this) FV	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Please prepare a response for Mr. Conable's signature.

"Dear Scott"

Due date: July 28, 1986

Judith Maguire

From

895

YAMAICHI INTERNATIONAL (AMERICA), INC.

MEMBERS: BOSTON, MIDWEST AND PACIFIC STOCK EXCHANGES

TWO WORLD TRADE CENTER, SUITE 9650
NEW YORK, NEW YORK 10048

TELEPHONE
(212) 912-6400

TELEX
RCA 232357,
233738
TWX 710-581-4496
WU 1-2244

CABLE ADDRESS
MONTONESCO

July 8, 1986

Mr. Barber Conable
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20453

Dear Barber:

From your first Press Conference, you are off to a good start. I applaud your willingness to have the World Bank play a leadership role in the debt problem. I also agree that Japan should join move fully in the World Bank family.

At this juncture, the private sector in Japan can help on both counts, taking advantage of the opening up of capital markets to draw upon the vast pool of savings in that country.

With best regards.

Sincerely,

Scott

Scott E. Pardee
Vice Chairman

Dear Scott:

SEP:ps

RECEIVED

1986 JUL 14 AM 7:46

OFFICE OF THE PRESIDENT

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

August 5, 1986

TO: Mr. Barber B. Conable, President

THROUGH: S. Javed Burki, Acting Vice President, External Relations

FROM: H. Martin Koelle, Acting Director, IPA HMK.

SUBJECT: Letter from Mr. Scott E. Pardee
Yamaichi International (America), Inc.

Mr. Scott Pardee, Vice Chairman of Yamaichi International (America), Inc., has written commenting favorably on your Press Conference. He was pleased to read of your view that The World Bank should play a leadership role in the debt problem and agreed that Japan "should join more fully in the World Bank family."

Attached is a draft letter thanking him for his comments.

Attachment

J.Grenfell/avs 08/05/86

#895

P-1867

August 4, 1986

Dear Mr. Schneider,

Thank you for your warm letter of congratulations. I appreciate greatly the support which you and Mr. Gut have expressed as I have assumed my position as President of the World Bank.

The World Bank values highly its close relationship with Credit Suisse. It is the joint effort of institutions such as ours which offers the greatest hope for the economic growth of the developing world. Such joint efforts will become increasingly important as we move to confront the difficult situation prevailing in the world today.

Again thank you for your support. I look forward to working with you and Credit Suisse in the future.

Sincerely,

(Signed) Barber B. Conable

Barber Conable

Mr. E. Schneider
Member of the Executive Board
Credit Suisse
Paradeplatz 8
8021 Zurich
SWITZERLAND

cc: Messrs. Qureshi, Mistry, Bock, Stanton, and Ms. Smith

CO'Neill:mb

THE WORLD BANK

ROUTING SLIP

Date July 25, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Qureshi	E1241
received on July 30 - 10 AM	

	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Please prepare a reply for Mr. Conable's signature.

Due date: August 4, 1986

Vivek Talvadkar

From

20154
07/30
1

CS CREDIT SUISSE

FOUNDED 1856

orig. → Mr Bock

SCHWEIZERISCHE KREDITANSTALT
CREDITO SVIZZERO

ZURICH

Mr. Barber B. Conable, President
The International Bank for
Reconstruction and Development
1818 H Street, N.W.

Washington D.C. 20433

U S A

Zurich, July 21, 1986

Dear Mr. Conable,

On July 1st you took over the presidency of the World Bank at a time when its importance as a leader for shaping the economic future of the world will only grow. Particularly its role in alleviating the debt situation of the LDCs will be crucial and the close cooperation and mutual understanding between your institution and the international commercial banks essential. We are convinced that under your leadership the bank will successfully meet the many difficult but rewarding challenges.

Let us, therefore, express to you our heartiest congratulations and our sincere personal best wishes for this brilliant nomination.

For many years now, Credit Suisse has enjoyed a highly valued, close and fruitful partnership with the World Bank in numerous fields. It is in the same spirit that we hope that an opportunity for a personal exchange of views on the many important subjects of mutual interest will arise soon.

In the meantime, we remain, dear Sir, with our renewed best wishes,

Yours sincerely,

C R E D I T S U I S S E

R.E. Gut	E. Schneider
Chairman of the	Member of the
Board of Directors	Executive Board

August 4, 1986

Dear Mr. Gut,

Thank you for your kind letter of July 21. The support of you and others within the international community has been most welcome as I have assumed my responsibilities as President of the World Bank.

As you noted, the World Bank has been called upon to take the lead in addressing the economic problems of the developing countries, particularly the high-debt middle income countries. While the Bank is well positioned to play such a leadership role, the success of our efforts will depend also on the support of private institutions such as Credit Suisse. In this context, your vote of confidence and warm wishes are particularly encouraging.

Thank you again for your support. I look forward to working closely with you in the years to come.

Sincerely,

(Signed) Barber B. Conable

Barber Conable

Mr. R.E. Gut
Chairman of the Board of Directors
Credit Suisse
Paradeplatz 8
8021 Zurich
SWITZERLAND

cc: Messrs. Qureshi, Mistry, Bock, Stanton, and Ms. Smith

CO'Neill:mb

THE WORLD BANK

ROUTING SLIP

Date: July 25, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Qureshi	E1241
received on July 30 – 10 AM	

	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Please prepare a reply for Mr. Conable's signature.

Due date: August 4, 1986

Vivek Talvadkar

From

20154
07/30
1

CS CREDIT SUISSE

FOUNDED 1856

orig. → Mr Rock

SCHWEIZERISCHE KREDITANSTALT
CREDITO SVIZZERO

ZURICH

Mr. Barber B. Conable, President
The International Bank for
Reconstruction and Development
1818 H Street, N.W.

Washington D.C. 20433

U S A

Zurich, July 21, 1986

Dear Mr. Conable,

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Let us, therefore, express to you our heartiest congratulations and our sincere personal best wishes for this brilliant nomination.

For many years now, Credit Suisse has enjoyed a highly valued, close and fruitful partnership with the World Bank in numerous fields. It is in the same spirit that we hope that an opportunity for a personal exchange of views on the many important subjects of mutual interest will arise soon.

In the meantime, we remain, dear Sir, with our renewed best wishes,

Yours sincerely,

C R E D I T   S U I S S E

R.E. Gut	E. Schneider
Chairman of the	Member of the
Board of Directors	Executive Board

Le 1 août 1986

Monsieur Hukporti Koffi Sallah
Banque Internationale pour l'Afrique
Occidentale au Togo
B.P. 6054
Lomé
Togo

Monsieur,

J'ai lu avec plaisir la lettre par laquelle vous m'adressez vos félicitations et m'exprimez vos souhaits de voir s'élargir mon horizon économique à l'occasion de mon élection au poste de Président de la Banque mondiale. Je voudrais saisir cette opportunité pour vous répondre que la Banque mondiale poursuit des objectifs très larges d'ajustement structurel pour la croissance économique réelle dans les pays en développement. Dans le cadre de ces objectifs, la Banque a fait de l'Afrique au Sud du Sahara sa priorité régionale comme l'atteste la part des fonds de l'Association internationale de développement - la filiale de la Banque mondiale pour les crédits faits à des conditions douces - affectée à l'Afrique ainsi que l'institution en 1985 de la facilité spéciale pour l'Afrique au Sud du Sahara. Au Togo en particulier, l'Association internationale de développement finance en ce moment le programme d'ajustement structurel que le Gouvernement est en train de mettre en oeuvre avec succès ainsi que de nombreux projets d'investissement dans les secteurs du développement rural, des infrastructures routières, de l'énergie électrique, de l'approvisionnement en eau et de l'éducation.

Je puis vous assurer que je suis personnellement disposé à poursuivre les priorités que sont l'ajustement pour la croissance et l'Afrique au Sud du Sahara et que je m'emploierai à élargir et approfondir le champ des interventions de la Banque mondiale partout où les hommes sont engagés dans la lutte pour le développement et contre la pauvreté et la famine.

Veuillez agréer, Monsieur, l'assurance de ma considération distinguée et l'expression de mes sentiments les meilleurs.

(Signed) Barber B. Conable

cc: M. Alisbah

IThiam:mm

LETTER TO THE PRESIDENT
FROM MR. KUKPORTI KOFFI SALLAH
BIAO, LOME, TOGO

(translation from French)

July 7, 1986

Mr. President:

It is my pleasure to congratulate you on the occasion of your election as President. I wish that your economic perspectives will be broadened.

God bless you.

Sincerely

(sd)

Hukporti Koffi Sallah

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP

Date
July 24, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr Cavaco	
~~Mr. Thalwitz~~	A313
Mr Bartlett Mills for action	
I apologize. This got lost	
in the transition. Please handle	
directly with a copy to me.	
	B A

	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

For the President's signature.

Due Date: August 1, 1986

Isaac Sam

From

7/28
47

989

BANQUE INTERNATIONALE POUR L'AFRIQUE OCCIDENTALE AU TOGO

BIAO TOGO
AFRIBANK

Lomé, le 07-07-86

Monsieur le Président.

En cette heureuse nouvelle pour moi à laquelle vous êtes promus au poste de président, j'ai le plaisir de vous adresser mes très vives et chaleureuses félicitations. Je voudrais saisir cette opportunité pour vous exprimer mon souhait ardent de voir s'élargir votre horizon économique.

Puisse le très haut vous accordez une longue vie, je vous prie d'accepter Monsieur le PRESIDENT les assurances de ma très haute considération.

HUKPORTI Koffi Sallah-
Banque internationale pour l'A.O.F.
B.P. 6054
Lomé - TOGO.

H K

BIAO TOGO
AFRIBANK

BANQUE INTERNATIONALE POUR L'AFRIQUE OCCIDENTALE AU TOGO

Lomé, le 07-07-86

Monsieur le Président.

En cette heureuse nouvelle pour moi à laquelle vous êtes promu au poste de Président, j'ai le plaisir de vous adresser mes très vives et chaleureuses félicitations. Je voudrais saisir cette opportunité pour vous exprimer mon souhait ardent de voir s'élargir votre horizon économique.

Puisse le très haut vous accorder une longue vie, je vous prie d'accepter Monsieur le PRESIDENT les assurances de ma très haute considération.

HUKPORTI Koffi Djallah -
Banque internationale pour l'A.O.
B.P. 6054
Lomé - Togo.

July 31, 1986

Dear Mr. Goodridge:

I was pleased to receive your letter of July 17, 1986, and to learn of your interest in cooperating with the World Bank in its activities in Egypt.

I hope your recent meeting with World Bank staff was useful in providing you with information about our past and proposed efforts in assisting the development of industry in Egypt and more specifically in promoting the private sector's role in this area. Given your knowledge of the economic situation in Egypt, you will appreciate how complex and immense this task is. We, therefore, warmly welcome the prospect of collaboration with institutions such as your bank. As a private sector Egyptian bank, The Nile Bank would no doubt have a particularly valuable perspective on the needs and potential of the economy that we could usefully draw upon.

I would be pleased to meet with you and Messrs. El Ayouty and Ghorbal as mutually convenient.

Best regards.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable
President

Mr. John C. Goodridge
5764 North Camino Del Sol
Tucson, Arizona 85718

Cl. with and cc: Messrs. Wapenhans (EMNVP), Lari (EM1DR)
cc: Mr. Favilla (EM1EG)
Mr. Conable's office (2)

SAWMoini:ab

JOHN C. GOODRIDGE
OVERSEAS REPRESENTATIVE
THE NILE BANK
CAIRO, EGYPT

5764 NORTH CAMINO DEL SOL
TUCSON, ARIZONA 85718
TEL. (602) 299-6613
TLX 825384-JCG-UF

967

July 17,1986

The Honorable Barber Conable
President, The World Bank
Building H, 619 Street
Washington, D.C.

Dear Mr. Conable:

It was very encouraging to read "The Wall Street Journal" this morning in which your strategy for making the World Bank a more effective force in helping developing nations cope with their very considerable economic and financial problems, was outlined.

The undersigned retired from Citibank N.A. in 1982 after some 35½ years of service. I am now associated with The Nile Bank as this stationery attests. The Nile Bank was established in 1978 by Mr. Issa El Ayouty, a gentleman I have known as a friend since 1955. His auditing and accounting firm remains highly esteemed in both Saudi Arabia and Egypt, as well as in other Arab countries. He owns a majority interest in the fully paid up capital of $40,000,000 of The Nile Bank, which is authorized to operate in both local and foreign currencies. It is a strictly private bank and Mr. El Ayouty has watched his bank grow profitably, but also conservatively. Foreign currency placements are in the range of $140,000,000 and a sizable volume of import credit business is conducted with leading U.S. and European banks especially. Local lending has been very restricted. Rather,Mr. El Ayouty has been operating more of a merchant bank in Egypt. He has established various companies under control of the bank, which takes equity positions ranging from 25% and up, with personal funds often assuring a majority or at least controlling interest in each company. His objective is to create profitable enterprises which contribute to Egypt's private sector in the fields of agriculture, food processing,timber and construction, printing, industry, and medical services. Companies are already operative in these areas.

We both know that Egypt has tremendous social, economic, and financial problems. It is my impression from reading "The Wall Street Journal" article that your goals for The World Bank might find a very useful ally in Egypt in The Nile Bank. Mr. El Ayouty, Chairman, Dr. Ashraf Ghorbal,now a Board member of the bank and for many years Egypt's highly esteemed Ambassador to Washington, and I will be in Washington from September 24 until October 7 incident to the I.M.F. and World Bank meetings and we would certainly welcome the opportunity for a meeting with you. Meanwhile, I am flying to Washington next Wednesday, July 23, staying at the Hyatt Regency for two nights, and have a meeting scheduled for 11:00 a.m. with your Mr. Moini* in room 7122. This is an exploratory meeting which I hope can lead to later substantive discussions with him and other of your colleagues.

Congratulations on your appointment and I am sure that your objectives for The World Bank will make it an increasingly effective entity in meeting the vast needs of the third world nations especially.

* Thursday a.m.

I had intended to restrict all content, including my signature on this letter, to one page. Regrettably,I failed,

Kindest regards.

Sincerely,

c.c. Mr. Issa I.El Ayouty, Chairman
The Nile Bank, Cairo

July 30, 1986

Dear Mr. Merie,

Thank you for your congratulatory message of July 2. I appreciate greatly the support which you and Mr. Galignani have expressed as I have assumed my responsibilities as President of the World Bank.

Recently the Bank has been asked to take the lead in addressing the economic problems of the developing countries, particularly the high-debt middle income countries. While the Bank is well positioned to play such a leadership role, the success of our efforts will depend also upon the support of private institutions such as Banque Indosuez. I look forward to working with you in the future as we confront the development challenges which lie ahead.

Again thank you for your support.

Sincerely,

(Signed) Barber B. Conable

Mr. Jacques F. Merie
Senior Vice President and Member of the Board
Banque Indosuez
Paris
FRANCE

bcc: Mrs. Helene Ploix, EDS04

cc: Messrs. Qureshi, Mistry, Bock, and Ms. Smith

ZCZC DIST8948 JWS0218
EXC
REF : TCP FCA

JWS0218 JR1344 IN 02/12:20 OUT 02/12:22
INSU F 650409F

CALLED BY BANQUE INDOSUEZ PARIS

02-07-86/0184/407000

FG

POUR WORLD BANK WASHINGTON

ATTENTION MR BARBER CONABLE
CHAIRMAN
ON BEHALF OF THE GENERAL MANAGEMENT OF BANQUE INDOSUEZ
WE SEND YOU OUR BEST CONGRATULATIONS AND WISH YOU
A LOT OF SUCCESS IN THIS NEW POSITION AS HEAD OF
THE WORLD BANK.
OUR SINCERES WISHES FOR THE VERY DIFFICULT AND DELICATE
TASK YOU HAVE TO FACE.
KIND REGARDS.

ANTOINE JEANCOURT GALIGNANI
PRESIDENT AND MEMBER OF THE BOARD

JACQUES F. MERIE
SENIOR VICE PRESIDENT AND MEMBER OF THE BOARD

BANQUE INDOSUEZ PARIS

INSU F 650409F

OFFICE OF THE PRESIDENT
1986 JUL -2 PM 7:01
RECEIVED

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ALT RTD FROM:EXCM

NNNN

ALT RTD FROM:TEXCN

=02021525

RECEIVED

1986 JUL -2 PM 7: 01

OFFICE OF THE PRESIDENT

INSU F 650409F

BANQUE INDOSUEZ PARIS

SENIOR VICE PRESIDENT AND MEMBER OF THE BOARD
JACQUES E. MERTE

PRESIDENT AND MEMBER OF THE BOARD
ANTOINE JEANCOURT GALIGNANI

KIND REGARDS,
TASK YOU HAVE TO FACE.
OUR SINCERES WISHES FOR THE VERY DIFFICULT AND DELICATE
THE WORLD BANK.
A LOT OF SUCCESS IN THIS NEW POSITION AS HEAD OF
WE SEND YOU OUR BEST CONGRATULATIONS AND WISH YOU
ON BEHALF OF THE GENERAL MANAGEMENT OF BANQUE INDOSUEZ
CHAIRMAN
ATTENTION MR BARBER CONABLE

POUR WORLD BANK WASHINGTON

FO

02-07-86/0184/402000

CALLED BY BANQUE INDOSUEZ PARIS

INSU F 650409F
JNSO218 JRT344 IN 02/12120 OUT 02/12122

REF : TCP FCA
EXC
ICCF DISTR99R INSO218

July 30, 1986

Dear Mr. Galignani,

Thank you for your congratulatory telex of July 2. The support of Banque Indosuez is most welcome as I assume my responsibilities as President of the World Bank.

The World Bank values highly its relationship with Banque Indosuez, particularly the cofinancing which has been arranged. Such joint efforts will become increasingly important as we face the difficult development challenges in the years ahead.

Again thank you for your support.

Sincerely,

(Signed) Barber B. Conable

Mr. Antoine Jeancourt Galignani
Chairman and Member of the Board
Banque Indosuez
9 Rue Louis Murat
75384 Paris Cedex 08
FRANCE

bcc: Mrs. Helene Ploix, EDS05

cc: Messrs. Qureshi, Mistry, Bock, and Ms. Smith

Mr Qureshi

20024
07/24

616

ZCZC DIST8948 JWS0218
EXC
REF : TCP FCA

JWS0218 JR1344 IN 02/12:20 OUT 02/12:22
INSU F 650409F

CALLED BY BANQUE INDOSUEZ PARIS

02-07-86/0184/407000

FG

POUR WORLD BANK WASHINGTON

ATTENTION MR BARBER CONABLE
CHAIRMAN
ON BEHALF OF THE GENERAL MANAGEMENT OF BANQUE INDOSUEZ
WE SEND YOU OUR BEST CONGRATULATIONS AND WISH YOU
A LOT OF SUCCESS IN THIS NEW POSITION AS HEAD OF
THE WORLD BANK.
OUR SINCERES WISHES FOR THE VERY DIFFICULT AND DELICATE
TASK YOU HAVE TO FACE.
KIND REGARDS.

ANTOINE JEANCOURT GALIGNANI
PRESIDENT AND MEMBER OF THE BOARD

JACQUES F. MERIE
SENIOR VICE PRESIDENT AND MEMBER OF THE BOARD

BANQUE INDOSUEZ PARIS

INSU F 650409F

=07021225

ALT RTD FROM:EXCM

NNNN

July 29, 1986

Dear Mr. Spaeh,

Thank you for your kind note of June 25. The support of you and others within the international financial community has been most welcome as I have assumed my responsibilities as President of the World Bank.

The World Bank values highly its relationship with Dresdner Bank, particularly the cofinancing which has been arranged between Dresdner and the Bank. Such joint efforts will become increasingly important as we confront the difficult situation prevailing in the world today.

Again, thank you for your support. I look forward to working with you and your institution in the years to come.

Sincerely,

(Signed) Barber B. Conable

Mr. Winfried H. Spaeh
Senior General Manager
Dresdner Bank Aktiengesellschaft
60 Broad Street
New York, N.Y. 10004

bcc: Mr. Gerhard Boehmer, EDS05

cc: Messrs. Qureshi, Mistry, Bock, and Ms. Smith

FORM NO. 89
(2–83)

820, 816, 793, 790

THE WORLD BANK

ROUTING SLIP	Date July 23, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Qureshi	E1241

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

For appropriate responses for Mr. Conable's signature.

Due date: August 1, 1986

Vivek Talvadkar VT

From

Mr. Qureshi
20123
07/24
1

820

WINFRIED H. SPAEH
SENIOR GENERAL MANAGER
CHIEF EXECUTIVE USA
DRESDNER BANK AKTIENGESELLSCHAFT

60 Broad Street
New York, N.Y. 10004
Tel.: (212) 558-93 29

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

June 25,1986

Dear Mr. Conable,

as you assume the Presidency of the World Bank, I would like to extend our most sincere congratulations and best wishes.

The expanding role the bank will play in the international financial markets will, undoubtedly, benefit from the special type of leadership you can provide.

Within Dresdner Bank's extensive relationship with your institution, we will do all we can to assist the bank's new role.

With kindest regards, I am,

Sincerely,

W. H. Spaeh

RECEIVED

1986 JUL -2 PM 7:04

OFFICE OF THE PRESIDENT

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex
IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

Typewritten Character Must Fall Completely in Box!

PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: EXC

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

THE INDUSTRIAL BANK OF JAPAN

TOKYO, JAPAN

FOR MR. KANEO NAKAMURA, PRESIDENT

DEAR MR. NAKAMURA:

THANK YOU FOR YOUR TELEX OF JULY 3. MAY I EXPRESS TO YOU AND THE INDUSTRIAL BANK OF JAPAN MY APPRECIATION FOR YOUR CONGRATULATORY NOTE AND FOR YOUR EXPRESSION OF CONTINUED SUPPORT FOR THE WORLD BANK'S OPERATIONS. MY COLLEAGUES IN THE TREASURER'S DEPARTMENT HAVE TOLD ME ABOUT YOUR INSTITUTION'S CONTRIBUTIONS TO OUR BORROWING PROGRAM. I AM CONFIDENT THAT WE WILL CONTINUE TO WORK TOGETHER IN A MUTUALLY BENEFICIAL WAY, ESPECIALLY AS THE LIBERALIZATION OF FINANCIAL MARKETS OPENS NEW AND EXPANDING OPPORTUNITIES. INDEED, WE WELCOME YOUR CONTRIBUTION TOWARDS THE ACHIEVEMENT OF THE WORLD BANK'S OBJECTIVES IN BENEFITTING OUR DEVELOPING COUNTRY MEMBERS.

SINCERELY, BARBER B. CONABLE, PRESIDENT, WORLD BANK.

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX

DATE: 7/14/86

SUBJECT:

DRAFTED BY: E.Folkerts-Landau:mc

EXTENSION: 77860

CLEARANCES AND COPY DISTRIBUTION:

AUTHORIZED BY (NAME AND SIGNATURE): BARBER B. CONABLE/ Barber B. Conable

DEPARTMENT: EXC

SECTION BELOW FOR USE OF CABLE SECTION

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 7/14/86

NAME	ROOM NO.
Mr. Barber B. Conable	
(through Messrs. Rotberg & Uhrig)	
GR-EHR U.	

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

REMARKS:

For clearance. GR-EHR

FROM:	ROOM NO.:	EXTENSION:
Rene Karsenti, FOD	D1233	75892

FORM NO. 1728
(2-8)

THE WORLD BANK

ROUTING SLIP	DATE: July 11, 1986

OFFICE OF THE
SENIOR VICE PRESIDENT, FINANCE

NAME	ROOM NO.
Mr. Karsenti	D1233

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

REMARKS:

Rene:

The attached request only came to us this afternoon (by mail) from Conable's office. They are asking for a reply by c.o.b. Monday. Would you be able to prepare a reply (through Rotberg) for Conable's signature? I'm going on annual leave today. Thanks.

FROM:	ROOM NO.:	EXTENSION:
Dan Morrow	E1241	75253

-

NB: Sent to Main/Recvd 7/11 3.15

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date July 9, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Qureshi	E-1241

	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Would appreciate it if your office prepares a reply for Mr. Conable's signature by July 14.

Bill Stanton

Forward to Mr. Karsenti

From

612

07/11

ZCZC DIST8980 JWS0297
EXC
REF : TCP HC

JWS0297 JGL927 IN 03/00:38 OUT 03/00:42
KOGIN A J23215

DATE : JULY 3, 1986

FROM : THE INDUSTRIAL BANK OF JAPAN, LIMITED

TO : THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ATT : MR. BARBER B. CONABLE, PRESIDENT

DEAR MR. CONABLE,

IT IS MY SINCERE PLEASURE TO LEARN THAT YOU HAVE BEEN ASSIGNED AS THE NEW PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD). I WOULD LIKE TO EXTEND MY HEARTIEST CONGRATULATIONS TO YOU, AND WISH YOU THE BEST LUCK IN YOUR FORTHCOMING TENURE IN THE MOST IMPORTANT INTERNATIONAL INSTITUTION FOR THE DEVELOPMENT OF THE WORLD ECONOMY.

TAKING THIS OPPORTUNITY, I WOULD LIKE TO STATE THAT THE INDUSTRIAL BANK OF JAPAN, LIMITED HAS BEEN THE PERMANENT LEAD COMMISSIONED BANK OF YOUR YEN DENOMINATED BONDS, THE LEAD MANAGER FOR YOUR YEN SYNDICATED LOANS AND THE FREQUENT PARTICIPANTS FOR YOUR FINANCING IN OTHER CURRENCIES. FURTHERMORE, WE ARE PREPARED TO REMAIN THE PRINCIPAL PROVIDER IN ANY CURRENCIES IN A FUTURE FOR YOUR FINE INSTITUTION.

I PLAN TO ATTEND YOUR ANNUAL MEETING TO BE HELD IN SEPTEMBER AND AM LOOKING FORWARD TO SEEING YOU AT THAT OCCASION.

BEST REGARDS,

KANEO NAKAMURA
PRESIDENT
THE INDUSTRIAL BANK OF JAPAN, LIMITED

KOGIN A J23215

=07030734

ALT RTD FROM:EXCM

NNNN

OFFICE OF THE PRESIDENT
1986 JUL -3 PM 5:33
RECEIVED