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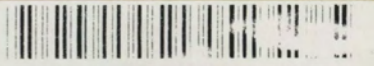
THE WORLD BANK
Washington, D.C.

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PUBLIC DISCLOSURE AUTHORIZED

McNabara Papers

The World Bank Group
Archives



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IFC Work Program / Capital Increase - Correspondence 01

Folder 1

DECLASSIFIED
WBG Archives

Mr. McNamara:

June 15, 1977

On June 11, you suggested to Mr. Qureshi that action on the IFC Role in High-Income Countries might await a capital increase for the Bank.

SB

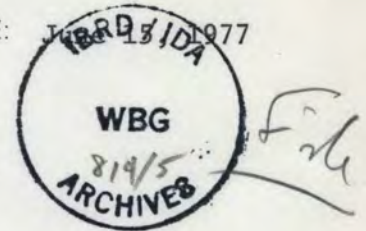
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: J. Burke Knapp *JBK*

SUBJECT: Draft Paper on the IFC's Role in Higher Income Countries

DATE: JUN 23 1977



With regard to the above-cited paper, which is returned herewith, and with regard to Mr. Goodman's memorandum to you on the same subject dated June 10, I would recommend that this paper be held in abeyance, at least until after we have a discussion in the Board regarding the Bank's graduation policies in connection with the "Role of the Bank" series.

My view on this matter starts with making a distinction between three categories of the "higher income countries" listed in Table 1 on page 4 of the IFC draft paper, i.e. Category A consisting of Spain, Ireland and Greece, Category B consisting of Gabon, Oman and Trinidad and Tobago, and Category C comprising the remaining countries listed.

Only in the case of Category A countries is the Bank really phasing out. We have terminated lending to Ireland and Spain and we have told the Board that we plan to phase Greece out after FY78.

In the case of Category B countries we are still planning lending operations in Oman and Trinidad and Tobago and we may reach agreement on further operations in Gabon, although for the moment it does not feature in the Bank's forthcoming lending program. All of these countries are special cases, featured by a low level of development with a high level of resources stemming from their oil exports; in principle our lending to them is to be based on "offset" or "buy back" arrangements.

As for the Category C countries, we have no present phase out plans and they all feature prominently in the Bank's 5-year lending program recently approved by you.

Taking these categories in reverse order, it is premature to consider what the IFC's policy might be if we phased out any Category C countries, although I would endorse the conclusions of the IFC paper if and when we came to that point. In the case of the Category B countries, even though in their special circumstances we have, so to speak, phased out net lending, I would favor continuing operations by the IFC because of the undeveloped character of these countries' economies. (Incidentally, I would say the same for Venezuela and Iran, and wonder why the IFC does not have any operations in prospect there.)

However, when it comes to Category A countries, which are really a quantum jump ahead of the other countries listed in Table 1 in terms of their level of economic development, it seems to me that the

June 15, 1977

dedication of IFC's talents and resources to these countries would be
12) an undesirable diversion from their main task in the developed world.

Mr. Qureshi's memorandum to you dated June 2, says that he is not so much concerned about countries like Spain and Ireland, as about establishing a policy for other countries which might be phased out in the next few years. Since we have no present phase-out intentions with respect to additional countries in Category C (and Category B countries hardly pose a significant policy issue) I do not see the need for going to the Board at this time with a paper such as that proposed.

Attachment

cc: Messrs. Cargill
Goodman
Qureshi

JBKnapp:isk

THE WORLD BANK

Office of the President

W

To Messrs Knapp ✓
Cargill

May I have your
comments on the attached.
L. New



814/5 18

OFFICE MEMORANDUM

190

TO: Mr. Robert S. McNamara

DATE: June 2, 1977

FROM: Moeen A. Qureshi *MAQ*



SUBJECT: The Role of IFC in Higher Income Countries

4/2

Attached is a draft paper on the Role of IFC in Higher Income Countries. My main concern is to establish a procedure whereby IFC can operate in concert with the Bank in defining its role in the higher income countries. Frankly, it does not matter too much as to whether IFC does, or does not, do something in one or two countries mentioned in the paper (e.g. Spain and Ireland) where the Bank has phased out, or is in the process of phasing out operations. What I am more concerned about is the fact that, in the next few years, other countries in which IFC is active are going to move to a stage of development where similar issues will arise and therefore a clearer definition of IFC's role in those countries would be helpful.

- cc: Mr. Knapp
- Mr. Cargill
- Mr. Chenery
- Mr. Baum
- Mr. Haq

MAQureshi:gmb

814/5/2

LvH/mjl
April 30, 1976

TO: Mr. Robert S. McNamara
FROM: L. von Hoffmann
SUBJECT: IFC Capital Increase



As of 11:30 this morning this is where we stand.

1. I have spoken in the last couple of days to Cooper, Wahl, Janssen, Sigurdsson, Witte, Franco, Drake and Ryrie. My discussion with Ryrie was preliminary and I have to see him this afternoon.

Generally, it is clear that it will depend on the outcome on IBERD kind of what/of a discussion we will have on IFC.

On the three issues which have arisen in the meeting on the 27th, this is the position as of now:

- a) Payment in currencies other than dollars. Nobody seems to care, except the French and the U.S. Wahl recognizes that national currencies either have to be converted promptly into dollars or there has to be a Maintenance of Value clause. Both Wahl and Cooper feel that prompt conversion via the market would create problems in the context of earlier general understandings between the French and the Americans. Wahl also recognizes that introduction of a Maintenance of Value clause in the IFC Articles at this point is impossible. We have given him the attached language which is based on the principle of prompt conversion and we have given it to the U.S. as well. We will see what happens.

4/30

- b) Sen's proposal to make the effectiveness of IFC resolution dependant on IBRD. While /in substance everybody realizes that if the IBRD capital increase fails it is unlikely that the IFC increase will succeed when the Governors vote, there is general reluctance to create another bone of contention with the formal amendment of the resolution. The exception is Cooper, who flatly says that the clause either has to be in both resolutions making it dependant on the other or in neither of them. We are trying to talk Sen out of it by offering him a statement from the Chair substantially along the lines of attachment III.
- c) Capitalization of Reserves. Nobody really cares except the Japanese, the French and mildly the British. Hori says that this had been settled earlier in the sense that the major countries agreed to support the Management's recommendation either way. He also feels the British have changed their position and unless we can resolve the matter he will ask for a deferral of the IFC meeting and he says the outcome may affect the Japanese position on the IFC capital increase. Clearly, face is involved on the Japanese side. I still have to clarify the British position. They seem to feel that they would not have raised it on their own but if the French insist they would be inclined to support the French position.^{1/} Everybody else is indifferent and is inclined to support whatever we recommend.

1/ When the British joined the EIB in 1971 they had to pay a premium over par corresponding to the existing surplus of EIB.

Wahl recognizes that he is on weak grounds: the French cannot complain about dilution because if they wish they can exercise their pre-emptive rights. He also recognizes that a minority cannot force the distribution of a corporation's surplus as long as their pre-emptive rights are protected, which is the case here. They cannot insist on a premium because all new members who have joined since IFC was established came in at par and they have never objected to that. However, he is acting under instructions and he may stick to his point.

I have given the people I have spoken to the paper attached as Annex III.

My recommendation is that we stick on this issue to our Draft Resolution and that in the meeting if Wahl brings up the point (which he will for the record) we explain why we want to maintain our recommendation and you then ask for a show of hands on whether the majority supports the Management's proposal or not.

As I have said at the beginning, the outcome of all this is still highly uncertain and we may have shifts until the last minute, particularly on item b) above.

Attachment IV is a draft of a statement which you might make in the meeting if a) US and Wahl agree on the currency clause, b) the British agree to support Management on the reserve issue and c) we fail to talk Sen out of his amendment.

LvH/mjl

April 30, 1976

Amendment to Paragraph F.1. of Draft Resolution.

or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall promptly exercise its best efforts to cause such currency or currencies to be converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

TALKING PAPER FOR THE BOARD
RE CAPITALIZATION OF RESERVES

1. In the meeting of the IFC Board of Directors on April 27, 1976 a Director proposed that prior to the proposed capital increase IFC should issue fully paid stock to existing members in proportion to their present holdings in IFC through the capitalization of surplus.
2. As of March 31, 1976 IFC's surplus represented by its General Reserve amounted to \$77.8 million. Earlier studies have shown that in the event that members wish IFC to capitalize the surplus through the issuance of stock, it would be prudent to retain a portion of this surplus as a cushion for unexpected contingencies and capitalize only about \$53 million, thereby bringing the capital to \$160 million prior to the proposed increase by new paid-in capital.
3. We have carefully considered the advisability of capitalizing reserves but have finally concluded against it and have recommended accordingly in the draft resolution attached to the President's memorandum dated February 4, 1976.
4. The reasons for our conclusions were the following:

(1) No international institution has in the past ever issued shares through capitalizing of surplus. Action by IFC in this respect may create a precedent, the consequences of which are difficult to predict, and which runs the risk of introducing a further complication in the already complex and difficult discussions concerning the capital structure of international institutions.

(2) If IFC's surplus were capitalized, it would reduce the voting power of the Part II countries as shown in the following table:

	<u>Part I Members</u>		<u>Part II Members</u>	
	<u>at present</u>	<u>after distribution of dividend</u>	<u>at present</u>	<u>after distribution of dividend</u>
Votes %	64.22	67.33	35.78	32.67

In connection with the subsequent new issue of capital, the developing countries would, in case reserves are capitalized, have to subscribe to approximately \$4.3 million more capital in IFC in order to arrive at the same subscription percentages as those envisaged for the Bank after the selective capital increase on the basis of strict parallelism with the Fund. The Part I countries would, in case of such capitalization, have to provide less new subscriptions of which the largest reduction would be for the U.S. (\$4.5 million).

April 29, 1976
LvH/mjl

With regard to the amendment proposed by Dr. Sen to the IFC Resolution aimed at linking the implementation of the IFC Capital Increase to the IBRD Selective Capital Increase, I understand and appreciate his concern that IFC should not get a preferred position compared to the Bank. If the Bank's Selective Capital Increase does not become effective, it would inevitably lead to a substantial reduction in the Bank's lending program. In that event, we shall have to review the priorities in the program including the scope for Bank lending to IFC. I would like to assure him that if the Bank's capital increase does not become effective by the end of calendar year 1977 then, before undertaking any further Bank lending to IFC, I shall submit the Bank's program for further lending to IFC to the Board for its review and approval in the context of the Bank's overall lending program and priorities. I hope this meets your concern, Dr. Sen, and you will agree with me that we can dispense with a formal amendment of the Resolution proposed.

April 29, 1976

DRAFT STATEMENT OF MR. McNAMARA
FOR IFC BOARD MEETING MAY 4, 1976

I said at the conclusion of the meeting of April 27 that there were three matters on which several Directors expressed questions or doubt, or preferences for changes - the currency of payment, the capitalization of reserves and the effective date. I suggested that we try to find some common ground in private conversations with the parties of interest. We have since then discussed the matter with some of you who had spoken on the issues.

As far as the item of the question of currency of payment was concerned, most of the Directors seem to be willing to go along with an amendment and we have accordingly revised the resolution which has been circulated to you.

As to the capitalization of reserves I believe that a clear majority supports the management's recommendations.

Mr. Sen suggested that the IFC resolution should become effective on or after the date on which the IBRD resolution on selective capital increase becomes effective and he suggested an amendment of the resolution before you to that effect. In the subsequent discussion several Directors expressed the view that in fact, while technically separate, the capital increase of IFC and of IBRD are in substance interrelated. We, of course, recognize this and hope that both resolutions will find the support of the members.

As to the specific amendment proposed by Mr. Sen my inclination is to recommend against it, as it would introduce a further complication in an already sufficiently complex situation. Also in substance the date by which votes of members should be cast, subject to extension by the Board of Directors, is in the case of IBRD six months from the dispatch of the resolution to the Governors, that is six months from now, or early November 1976. In the case of IFC the date is December 31, 1976, that is about two months after the Bank's date. Therefore, any member can withhold voting on the IFC resolution until the Bank resolution becomes effective. Therefore, I hope that the Board will support the provisions regarding the effectiveness of the resolution as drafted.

It appears, therefore, that we have a resolution on which we can reach a decision. May I then take it that the resolution as circulated to the Board and attached to paper is approved:

those in favor? Approve? Abstentions?

(In the event of dissent on the capitalization of reserves or any other point:

May I ask a show of hands of who is in favor of the resolution as put forward by management?

Those in favor of the amendment proposed?

I see a clear majority in favor of the draft as it is before you.

Do you wish that we take a formal vote now on the resolution as a whole?)

April 30, 1976
LvH/eh

814/5/1

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 17, 1970

File

FROM: William S. Gaud *W.S.G.*SUBJECT: IFC Reserves

1. Pursuant to resolutions adopted by the Board of Directors in 1959 and 1961, IFC's net income (including net profits on sales of operational investments) is allocated to a Reserve Against Losses. On March 31, 1970 the Reserve Against Losses amounted to \$56.5 million (Annex A). By 1975 it is expected to rise to \$137.4 million (Annex B).
2. Our loss experience to date, including losses on exchange, is not bad. Completed losses are \$1,476,500 (Annex C) to which should be added another \$251,000 in respect of D.L.R. Plasticos in Brazil and the Aevol transaction in Greece (final action has not been taken on either of these, which explains their failure to appear on Annex C). And the aggregate amount of our doubtful investments (on most of which we expect no write-off) is less than \$8 million (Annex D).
3. A Reserve Against Losses of \$55.6 million is much larger than necessary. It does not reflect our loss experience, and it over-emphasizes the risks in our portfolio. IFC's balance sheet would present its financial picture more accurately if the present Reserve Against Losses were broken down into two accounts: a smaller Reserve Against Losses and surplus.
4. If this were done, \$20 million would be an ample Reserve Against Losses at the present time. In future I would maintain the Reserve at that figure or at 10% of IFC's disbursed portfolio, whichever is higher, with any excess being allocated to surplus account. Annex E shows the projected build-up of Reserve Against Losses and surplus through 1975 if this were done.
5. This proposal has been objected to on several grounds.
6. First, Price Waterhouse points out that if IFC splits up its present Reserve Against Losses, its balance sheet will differ from that of the Bank because the Bank follows IFC's present practice of carrying its accumulated earnings in a single Reserve Against Losses. This is true, but does it matter? Since IFC's business is different from the Bank's business, so I see no reason why the items on their balance sheets need be identical. However, Price Waterhouse feels strongly about this and would like to be heard before any change is made.

President has seen.

7. Second, it is argued that if IFC shows a surplus on its books, a government that withdraws from IFC will be more likely to insist that the repurchase price of its stock take into account its pro rata share of the surplus.*

8. It is true that an account designated "Surplus" draws direct attention to the fact that a member's stock has increased in value. An account designated "Reserve Against Losses" would be less likely to do so if its amount bore some reasonable relation to the Corporation's loss experience and actual reserve needs. But when the Reserve Against Losses is wholly out of line with the Corporation's loss experience (and, as is the case here, represents close to 40% of the Corporation's disbursed portfolio) it takes very little imagination to figure out that the account must contain some elements of surplus.

9. Furthermore, withdrawals from IFC membership are rare. There have been three to date: Cuba, the Dominican Republic and Indonesia (the latter two have rejoined, Cuba has not). As a practical matter, I believe the odds are that a split-up of this account would not result in higher repurchase prices in the case of withdrawals -- just as I would rate very low the chance that IFC would insist that new members pay a higher price for their IFC stock because of the existence of a surplus.

10. Third, the Controller objects to making this change on the following grounds:

"We feel that the \$20 million reserve at the present time or 10% of IFC's disbursed portfolio is not sound from an accounting viewpoint, because it is not supported by IFC's loss experience to date and/or the total amount of doubtful investments cited in Annex D. The alternative of annual requests to the Board for an allocation to the Reserve Against Losses based on a periodical appraisal of the portfolio could lead to questions from the Board, as to why a particular investment was considered likely to result in a loss, that it may be

* Article V, Section 4, provides that, when a member withdraws, IFC and the member may agree on the repurchase price of the member's capital stock; failing agreement within six months, the repurchase price is to be the value as shown by the books of IFC on the date of withdrawal.

preferable to avoid. Further, contingency reserves are normally created only to cover specific losses which threaten with more or less certainty. Disclosure of this view of a particular investment may reduce the chances of subsequent recoveries. In our opinion, therefore, IFC confronts the choice of continuing the present practice or, following current commercial accounting practice in the U.S., reclassifying the whole of the reserve to retained earnings and thereafter putting all write-offs through the income accounts as they are taken. Subsequent recoveries of any amounts so written off would be similarly put through the income accounts. As between the two alternatives, we favor the latter from an accounting viewpoint, but bearing in mind IFC's character as an international development organization and as a member of the Bank Group, it seems to us that the largely intangible benefits of making the change do not outweigh the real and intangible costs."

11. Finally, some of those who have reservations about making this change argue that the change would have no practical significance. It would increase our borrowing capacity, but that is of no immediate consequence because our borrowing capacity is already sufficient for a number of years to come. In short, it is said, this would be a pointless change that would serve no substantive purpose.

12. This brings me to what I conceive to be the real issue, i.e., will this change help us when we go to governments to replenish our capital? I believe it will. IFC claims to operate in accordance with sound business principles and practices. To my mind this means that IFC should have a straightforward balance sheet which sets up a realistic loss reserve and takes credit for earned surplus. In my opinion there is something fuzzy and unnatural about our present Reserve Against Losses.

13. I accordingly recommend that we ask the Board of Directors to split up the Reserve Against Losses. I further suggest that this be done in time for IFC's June 30, 1970 balance sheet to reflect this change. However, inasmuch as the Controller and Price Waterhouse disagree with this recommendation for the reasons stated above, you may wish to have a meeting to discuss the matter.

INTERNATIONAL FINANCE CORPORATION

Balance Sheet

MARCH 31, 1970

EXPRESSED IN UNITED STATES CURRENCY—See Notes to Financial Statements, Appendix D

ASSETS

	1970	1969
DUE FROM BANKS	\$ 210,616	\$ 1,292,497
INVESTMENTS		
Obligations of United States Government (At cost or amortized cost; face amount \$9,000,000-1970, \$28,900,000-1969)	\$ 8,723,639	27,971,512
Time deposits maturing within six months-United States dollars	-	4,000,000
Accrued interest	<u>108,827</u>	<u>453,763</u>
	8,832,466	32,425,275
EFFECTIVE LOANS AND EQUITY INVESTMENTS HELD BY CORPORATION (At cost) (See Appendix C)-Note B (Including undisbursed balance \$36,110,629-1970, \$31,080,037-1969)		
Loans	\$115,332,733	91,882,563
Equity	<u>70,347,838</u>	<u>57,478,119</u>
	185,680,571	149,360,682
ACCRUED INCOME ON LOANS AND UNDERWRITING COMMITMENTS- Notes B & C	2,293,532	1,713,117
RECEIVABLE FROM INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	200,000,000	100,000,000
RECEIVABLE FROM PURCHASERS ON ACCOUNT OF EFFECTIVE LOANS AND EQUITY INVESTMENTS AGREED TO BE SOLD-Note C (Including undisbursed balance \$11,116,547-1970, \$9,593,845-1969)	14,356,715	9,595,008
OTHER ASSETS	<u>214,644</u>	<u>173,347</u>
TOTAL	<u>\$411,588,544</u>	<u>\$294,559,926</u>

LIABILITIES, RESERVE AND CAPITAL

LIABILITIES

Accounts payable and other liabilities	\$ 909,760	\$ 813,542
Undisbursed balance of effective loans and equity investment agreements		
Held by Corporation	\$ 36,110,629	31,080,037
Agreed to be sold	<u>11,116,547</u>	<u>9,593,845</u>
	47,227,176	40,673,882
Loan from International Bank for Reconstruction and Development (Not yet drawn)	200,000,000	100,000,000
RESERVE AGAINST LOSSES (See Appendix B)-Note D	56,497,608	46,497,502

CAPITAL

Capital stock

Authorized 110,000 shares of \$1,000 par value each		
Subscribed 106,575 shares-1970, 106,540 shares-1969	106,575,000	106,540,000
Payment on account of pending subscription	<u>379,000</u>	<u>35,000</u>
TOTAL	<u>\$ 411,588,544</u>	<u>\$294,559,926</u>

INTERNATIONAL FINANCE CORPORATION

Annual Additions to Reserve Against Losses
from Inception through 1975

(\$ millions)

Fiscal Year	Reserve against Losses		Disbursed Portfolio Held by Corporation
	Amount of Increase	Cumulative Balance	
1957	1.6	1.6	-
1958	2.4	4.0	3.3
1959	1.7	5.7	9.9
1960	2.1	7.8	17.5
1961	2.8	10.6	24.4
1962	2.7	13.3	34.5
1963	3.7	17.0	41.8
1964	3.2	20.2	50.6
1965	2.9	23.1	56.8
1966	5.3	28.4	69.5
1967	6.3	34.7	86.4
1968	6.2	40.9	108.4
1969	7.7	48.6	119.2
1970	8.4 */ **/	57.0 */	171.7 */
1971	7.4 */	64.4 */	242.7 */
1972	14.3 */	78.7 */	324.4 */
1973	17.0 */	95.7 */	403.8 */
1974	19.6 */	115.3 */	478.1 */
1975	22.1 */	137.4 */	547.0 */
Total	\$137.4		

*/ In accordance with forecast of Financial and Operating Data Through FY 1975.
 **/ \$7 million through February 28, 1970, which results in the cumulative amount
 of \$55.6 million as of that date.

Controller's Department
 Accounting Division
 April 7, 1970

INTERNATIONAL FINANCE CORPORATIONLosses charged directly to Reserve against Losses through FY1970

<u>Fiscal Year</u>	<u>Date</u>	<u>Investment Number</u>	<u>Description</u>	<u>Amount</u>	<u>Total</u>
1963	1963 March 11	15CO	Cancellation of deferred interest	\$ 61,231	\$ 61,231
1964	1963 August 1	18AU	Cancellation of deferred interest	\$ 1,382	
	August 16	18AU	Sale of notes at a discount	95,288	
	1964 April 6	25TA	Cancellation of fixed interest	<u>24,908</u>	121,578
1965	1964 August 14	39AR	Cancellation of commitment charge	\$ 31,883	
	October 30	42CO	Loss on conversion to dollars of proceeds of sale of equity	66,519	
	November 30	74CO	Currency depreciation	58,917	
	December 31	74CO	Currency depreciation	10,783	
	1965 January 31	74CO	Currency depreciation	13,680	
	February 28	74CO	Currency depreciation	22,148	
	March 31	74CO	Currency depreciation	1,291	
	April 30	74CO	Currency depreciation	482	
	June 15	36CO	Write-off of deferred interest	20,826	
	June 15	26PE	Write-off of fixed interest	21,933	
	June 30	26PE	Write-off of loan principal	<u>300,000</u>	548,462

<u>Fiscal Year</u>	<u>Date</u>	<u>Investment Number</u>	<u>Description</u>	<u>Amount</u>	<u>Total</u>
1966					-
1967					-
1968	1967 November	various	Currency devaluations (sterling)	\$ 553,498	
	1968 February 15	64TU	Conversion to dollars of profit on sale of equity on September 28, 1967	<u>2,514</u>	\$ 556,012
1969	1968 July 22	22PE	Write-off of fixed interest	\$ 1,330	
	October 22	56MO	Conversion to dollars of redemption of equity by the company	9,042	
	1969 January 9	16CH	Revision of contingent interest accrued at June 24, 1968	789	
	April 30	25TA	Sale of equity to the Government of Tanzania at a discount	<u>178,206</u>	189,367
1970 *					-
				Total	<u>\$1,476,650</u>

* Through February 28, 1970

Controller's Department
Accounting Division
April 6, 1970

ANNEX D

IFC - Statement of Doubtful Investments

A. Involving partial or total loss

(Figures in US \$)

<u>No.</u>	<u>Country</u>	<u>Company</u>	<u>IFC Investment</u>				<u>Possible Loss</u>	
			<u>Initial</u>	<u>Current</u>	<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>
			<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>
1.	Brazil	D.L.R. Plasticos	-	450,000	-	200,000	-	150,000
2.	Greece	Aevol Industrial Company of Organic Fertilizers, S.A.	* 600,000		* 480,000	**	* 101,053	
	Total		* 1,050,000		* 680,000	**	* 251,053	

* 1900 shares of Dr. 1,000 par value each were issued to IFC free of charge. The nominal dollar value of these shares at the current rate of exchange of US \$ = Dr.30 is \$63,333.

** Excludes \$17,393 accumulated interest accrued on books.

B. Involving very high risk

(Figures in US \$)

<u>No.</u>	<u>Country</u>	<u>Company</u>	<u>IFC Investment</u>				<u>Possible Loss</u>	
			<u>Initial</u>	<u>Current</u>	<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>
			<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>	<u>Equity</u>	<u>Loan</u>
1.	Colombia	Forjas de Colombia	1,267,502*	-	1,091,518	-	1,091,518	-
2.	Peru	Fertilizantes Synteticos, S.A.	-	1,819,290**	-	369,290	-	147,716
	Total		1,267,502*	1,819,290**	1,091,518	369,290	1,091,518	147,716

* Includes \$352,109 Standby and underwriting commitments

** Excludes participations.

NOTE:

- (1) This statement does not include cases of erosion of the dollar value of equity investments due to exchange deterioration not fully offset by an increase in the local currency value of the investment.

- (2) There are, at present, three investments in difficulties:
(i) Argentina - Editorial Codex, Current Investment, Equity - \$1,600,000, Loan - \$2,517,000; (ii) Tunisia - NPK-Engrais, S.A.T., Current Investment, Equity - \$1,148,929, Loan - \$787,600; and (iii) Uganda - Mulco Textiles Ltd., Current Investment, Equity - \$471,429, Loan - \$1,039,680. As far as can be foreseen now, these investments may need rescheduling of the loans and indefinite postponement of any return on the equity, but are unlikely to result in any write-offs.

April 16, 1970.

ANNEX E

INTERNATIONAL FINANCE CORPORATION

Projection of Reserve Against Losses
and Surplus for FY's 1970 through 1975

(\$ millions)

<u>Fiscal Year</u>	<u>Surplus</u>		<u>Reserve Against Losses</u>	
	<u>Current Year</u>	<u>Cumulative Amount</u>	<u>Current Year</u>	<u>Cumulative Amount</u>
1970	-	37.0	-	20.0
1971	3.1	40.1	4.3	24.3
1972	6.2	46.3	8.1	32.4
1973	9.0	55.3	8.0	40.4
1974	12.2	67.5	7.4	47.8
1975	15.2	82.7	6.9	54.7

Note: Assumes that the Reserve Against Losses will be \$20 million, or 10% of IFC's disbursed portfolio, whichever is higher.

Controller's Department
Accounting Division
March 30, 1970

THE ROLE OF IFC IN HIGHER INCOME COUNTRIES

1. In the discussions held by the Policy Review Committee on the paper on IBRD policy vis-a-vis higher income countries, it was decided to set aside for discussion the question of whether IFC has a special role to play as higher income countries are phased out from IBRD lending. This paper is an analysis of that issue.

Should There Be a Separate Policy for IFC?

2. The question has been asked, both in the recent Bank paper and also in earlier discussions of whether there should be a separate policy for IFC operations in the so-called higher income countries. The answer to such a question clearly is no. Whether it borrows from the Bank or not, IFC is part of the World Bank Group, and its own policies are therefore part and parcel of those of the Bank Group as a whole. A more useful question, however, is whether IFC has a useful role to play in the process of phasing out operations in higher income countries by the Bank Group as a whole.

3. A number of both Part I and Part II countries are interested in such a possible role by IFC because they feel that, even with modest resources, the World Bank should provide a fairly wide range of services to its members. For countries at the upper end of the income spectrum, a major priority is how to improve their access to external capital markets. The income levels and general economic and managerial features of those countries have enabled them to begin to have access on an increasing scale to funds from the international capital markets, primarily in the form of syndicated Eurocurrency bank loans. This access, however, is principally

by government borrowers (see table below in para. 6). The acceptability of private sector borrowers is often very limited in such markets. Hence, a number of governments feel that a small presence on the part of IFC can help to overcome this problem in the development of the private sector. These countries, therefore, while fully accepting the idea of graduation from IBRD funds, feel that some sort of a transition to complete graduation from the Bank Group can be achieved by an IFC presence.

Access to Capital Markets

4. A major issue in the discussions on higher income countries has been the question of access to external capital markets, since it is realized that per capita income by itself is not a sufficient condition for countries to be able to fund their external capital requirements without significant recourse to official external institutions. The experience of the last few years has shown that resource endowment, at least as it is perceived by financial institutions, has often as much to do with access as other factors such as per capita income, economic management, and debt record. For example, some of the copper producers, such as Peru, Zaire and Zambia, obtained large sums in the Euromarket in 1973 and several OPEC countries are substantial borrowers today.

5. The question of access is a complex one. The important consideration from an operational point of view is whether the access takes place at reasonable terms, a judgment which is not easy to make since the terms may be reasonable in the context of prevailing market conditions but may be unsuitable to a particular investment. Moreover, the changes in the terms and conditions upon which borrowers in the international markets can obtain funds have in recent years been somewhat volatile, so that "access" at any

particular period in time is difficult to measure. Another complicating factor is that countries which could have very good access do not use it because they do not need it. That was the case until recently, for example, of Venezuela.

6. For the private sector, there is also the question of whether the access of government institutions constitutes access for the rest of the economy, since those institutions can recycle funds into the domestic economy. Clearly, even in advanced countries, the number of private sector enterprises which can hope to borrow medium- and long-term funds in outside markets is rather limited. The difference on this score between the industrially advanced countries and the higher income developing countries is largely one of degree, which is very difficult to measure. However, there are several countries where the government is seeking and effectively beginning to have significant access to outside market sources of finance while the access of the private sectors is still quite underdeveloped, so that it is difficult for the governments to obtain enough funds to be recycled to the private sector. The table below lists the major higher income borrowing countries in which IFC has potential operations,^{1/} and compares known publicized medium- and long-term external borrowing by governments and their agencies or guaranteed by them in the period 1972-76 with similar borrowing by non-government enterprises. The comparison is of course a rough one and may well underestimate the access of private sector enterprises, which sometimes obtain direct unpublicized loans and

^{1/} The list is the same as that on page 12 of PRC/M/77-2 of January 31, 1977, but excludes Bahamas, Singapore, Venezuela, Iran, Romania, Barbados and Iraq, in which IFC does not have operations in prospect at present.

**Table 1: EXTERNAL MARKET BORROWING BY COUNTRIES
OVER \$1,000 IN PER CAPITA GDP**

	Per Capita GDP 1975 (US 1975 dollars)	Publicized bond issues and external loans of more than 1 year maturity, 1971-76 (US\$ million, current prices)	
		Public sector & guaranteed*	Unguaranteed* private sector
Spain	2,700	4,093.4	1,207.0 ^{1/}
Ireland	<i>A</i> 2,420	1,299.1	238.3 ^{2/}
Greece	2,360	1,644.4	256.5 ^{3/}
Gabon	2,240	219.1	0
Oman	<i>B</i> 2,070	128.1	10.0
Trinidad & Tobago	1,870	33.6	20.0
Portugal	1,610	237.2	39.0
Argentina	1,590	1,900.8	16.0
Yugoslavia	1,480	549.5	736.5 ^{4/}
Uruguay	<i>C</i> 1,330	156.5	0
Jamaica	1,290	258.6	0
Mexico	1,190	7,803.4	468.5 ^{5/}
Cyprus	1,180	0	0
Panama	1,060	598.8	20.0
Brazil	1,010	7,929.1	965.9 ^{6/}
Total	<u>25,400</u>	<u>26,851.6</u>	<u>3,977.7</u>

* Guarantees refer to government guarantees.

^{1/} Includes mixed sector public utilities.

^{2/} Includes \$118 million guaranteed by foreign shareholders.

^{3/} Consists largely of loans secured by ship mortgages.

^{4/} Includes borrowings and guarantees by various banks technically considered private.

^{5/} Includes \$105 million with a partial government guarantee.

^{6/} Includes \$534 million guaranteed by foreign shareholders.

which in a number of cases are discouraged from borrowing by domestic tax and exchange management regulations. Still, the contrast between the volume of external market loan funds obtained by the public and private sector illustrates the well-known and understandable fact that commercial lenders to developing countries prefer a governmental credit risk to a private unguaranteed one.

7. The principal financial requirement for industrial enterprises in a number of these countries is access to long-term financing for investment projects. Since access to external funds is quite limited and is often on terms not suitable for such projects, development of the domestic capital market becomes a matter of very high priority. In most of the countries listed on the table, the domestic capital market does not yet provide this type of financing, even to the best companies. In Greece, for example, a recent review for the proposed IFC loan to the National Investment Bank for Industrial Development (NIBID) shows that there are very few, if any, sources of non-mortgage financing at terms beyond one year, except for NIBID itself. In the case of Spain, there is a domestic bond market, in which domestic utility companies - several of which are partly or wholly government-owned - have been active, although the maturities obtainable have typically been medium term. The availability of long-term domestic finance in other countries which are further away from the phasing-out stage is likely to continue to be a constraint to the development of the private industrial sector.

Elements of a Policy for IFC

8. As countries increase their income and improve their access to external capital, the need for lending by official external agencies is bound to diminish. It is obviously difficult to establish reasonably objective criteria which could be used to determine at which point new commitments should cease. As an international development institution, IFC should seek to optimize the benefits which its activities can bring to countries by focusing on the projects which have the highest benefits on an international scale of comparison. In practical terms, however, it is not really possible to define such a scale. In a normative sense, however, it can be said that IFC operations in the higher income developing countries should not take away financial and manpower resources that could be used more productively in countries with greater overall needs. In fact, this risk is low since, with or without a capital increase, IFC is unlikely to put significant amounts of money into the higher income countries or to do more than a few operations in them. There are only a few such countries which may be phased out in the immediate years ahead so that the diversion of manpower, in the event that IFC operates in these countries, is also likely to be low. However, the general principles of an IFC policy towards higher income countries are likely to be important further in the future, once the next group of semi-industrialized countries has made substantial economic progress, in the next five to ten years.

9. The issue to be discussed is thus what should be the general priorities of the Bank Group in countries which are likely to be phased out, and how can IFC contribute to the furtherance of these objectives.

The general long-term evolution of terms from the Bank Group to a particular country over time can be seen as a sequence beginning with IDA/IFC, followed by a blend of IDA/IBRD/IFC, pure IBRD, and as the last stage, only IFC with a high proportion of co-financing from market sources.

10. When a country is considered a candidate for phasing out from further Bank lending in the foreseeable future, namely two or three years, a joint assessment of the Bank and IFC ought to be made of whether IFC should continue to operate in that country for a transitional period.

The case for IFC to continue would depend on the following elements:

- a. The extent of the underdevelopment of the access of the private sector to long-term funds;
- b. The existence or likelihood of possible projects which would make a significant contribution to improving that access, whether through the improvement of the domestic capital market or by direct foreign borrowing or by a combination of both; and
- c. The prospect that IFC, with a small proportion of its own funds, would be able to raise a substantially larger multiple from external market sources, and, in the case of the domestic capital market, develop appropriate domestic capital market of the type suitable for the stage of development of such countries.

Several countries may not meet these three tests, in which case IFC would phase out together with the Bank. However, in the cases where the program review by IFC and the Bank finds that there is a reasonable presumption that the tests can be met, a transitional program would be worked out which would be directly aimed at these particular objectives.

11. An additional element to be considered, even though it would not by itself be decisive, is the possible effect upon the country concerned of a rapid phase-out of the Bank Group, which the country concerned might consider disruptive to the continuity of its development program. Clearly, this is only an additional element of judgment, but it might tilt the balance in marginal cases as long as the resulting financial and manpower involvement of IFC was likely to be small. Finally, there is the question of whether IFC has a special role to play in the industrialization of the least developed regions of a country, as has been the case in recent years with IFC investments in poor regions of middle income countries, such as in the Northeast of Brazil and in Eastern Turkey.

12. The operations of IFC in the countries listed in Table 1 have in the past been successful in helping to raise from market sources a substantial amount of complementary funds. The table below shows in rough terms that \$2 of market financing was associated with every \$1 put in out of IFC's own funds. This multiplier effect can be expected to expand in the higher income countries in which the Bank Group - through IFC - might continue to be active. For example, IFC is at the present time syndicating a \$40 million loan to NIBID of which \$35 million would come from market sources. This operation fits well into the priorities which clearly exist in Greece: to improve domestic financial intermediation for investment finance and to improve the access of the private sector to external market borrowing.

Table 2: EXTERNAL MARKET LOANS RAISED IN CONJUNCTION
WITH IFC COMMITMENTS, FY71-76
(in US\$ million, current prices)

	IFC Commitments	Complementary External Market Financing	
		IFC Participations	Other
Spain	14.9	-	17.8
Ireland	-	-	-
Greece	1.3	-	4.8
Argentina	29.0	4.0	119.4
Yugoslavia	115.6	55.8	320.3
Uruguay	3.8	-	-
Jamaica	-	-	-
Mexico	39.3	4.0	75.3
Cyprus	2.7	0.6	2.5
Brazil	<u>220.0</u>	<u>95.1</u>	<u>232.1</u>
Total	426.6	159.5	794.8

NOTE: Other countries on Table 1 have been omitted because there have been no IFC investments

13. In conclusion, a justification exists for IFC to continue to make selected specially tailored investments in the very few countries which are at the point of being phased out from IBRD lending at any particular point in time. Each case will of course have to be analyzed on its own merits. As a first step, a procedure should be established for a joint IBRD-IFC assessment of individual countries likely to be candidates for a phase out. The first two countries suggested for such a review would be Spain and

Ireland. Both these countries have expressed a strong desire for some IFC support. The Bank has already phased out of Ireland; while the Irish private sector has limited access to external market resources, Ireland has significant support from Common Market. These elements would have to be carefully analyzed in an assessment of the need for IFC support. In the case of Spain where the Bank is now considering phasing out, private access to external capital is more developed primarily because the enterprises are larger, but the local capital market is still relatively underdeveloped. In both cases, it would be desirable to send a small mission consisting of an economist and a specialist in capital markets to determine whether some IFC role, which in any case would have to be limited and carefully defined, would be justified.

14. The guiding principle for investments in higher income countries is that they should be designed in such a way as to minimize IFC financial resources and maximize the contribution of the market. They will also be designed with the specific objective of improving the access of the private sector of those countries to market finance. The major manpower input of IFC in such cases would be on the syndication side, which is intended to serve such needs, rather than on the side of project promotion and analysis.

814/5/7

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara *o*
 FROM: Moeen A. Qureshi *maq*
 SUBJECT: IFC Program for FY 78

DATE: May 14 1977



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[discuss with me]

Attached is a paper which defines an IFC program of operations for FY 78. It raises various issues of general approach and policy in terms of a 5-year perspective for our activities. I am sending a copy of this paper to Mr. Gabriel.

I would appreciate an opportunity to discuss this and some related matters with you at your convenience.

MAQureshi:gmb

8/14/5/6

IFC BUDGET FOR FY78 - BASIC PROGRAM AND TARGETS

Introduction

1. A major aim of my work in the coming fiscal year will be to organize the planning and programming of IFC activities in a more systematic manner than in the past. In view of the uncertainties inherent in private investment decisions, our program will require frequent adjustments and updating. Therefore, I propose to send you, after this initial overview, each quarter a synopsis of the program for that quarter and for the remainder of the year as it is seen at that point. In that way, I hope that you will have an early opportunity to comment on prospective projects before IFC has spent substantial resources on processing them. As part of an improved system of programming, I plan to link more directly than hitherto our economic knowledge on countries, especially in countries where IFC has a substantial exposure, with the prospective operations of IFC. How this might be done is described later in this note.
2. Of course, we have to be fully aware of the limitations IFC faces in its programming effort. For example, during fiscal year 1976, 10 of the 33 project commitments came to us for the first time during the fiscal year, while projects which had been foreseen at the beginning of the fiscal year dropped out for a variety of reasons. In the present fiscal year, the situation is broadly similar. For example, several of the projects outlined by Mr. von Hoffmann in his memorandum to you of July 12, 1976,

will not generate commitments in the current fiscal year. The reasons are varied: changes in attitude of sponsor (for example, the diesel engine parts project in India), deterioration in the overall investment climate (for example, a withdrawal of certain enterprises from Part I countries from some of our projects, especially in mining) or in particular national economic situations (e.g. Mexico), and project-related changes or obstacles. In view of the uncertainties of our work, the only element of certainty in our program concerns inputs - primarily the deployment of staff time - rather than outputs - primarily project commitments.

Major Considerations

3. I believe that, despite the rather low inventory of projects at present available for commitment in FY78 (see Table in para. 18 below), IFC can realistically aim for a target of ³²⁺40 project commitments in FY78, compared to 33 in FY77, totalling \$300-330 million. Of this latter figure, \$230 million would be for our own account and \$70-100 million would come from participations. For reasons described later, I am more uncertain about the volume of IFC commitments than about the number of projects and for the time being I would prefer to present the lower figure of \$300 million in the FY78 budget. One indication of the uncertainty relating to IFC operations is that at this late stage in the fiscal year I am still not certain that we can achieve even the indicated amount of \$250 million of IFC commitments in FY77.

4. Let me put the business estimates for FY78 in a 5-year perspective in order to see (i) how they compare with our earlier projections and (ii) how I envisage our longer term task and objectives.

IFC INVESTMENT PROGRAM 1978-82

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	<u>Capital Increase Paper</u>		<u>Financial Projections^{1/}</u> 2/16/77		<u>Possible Future Plan^{2/}</u>		
	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt. in FY77 commitment \$</u>	<u>Amt. in current \$</u>	<u>No.</u>
FY76 (Actual)	245	33	245	33	263 ^{3/}	245	33
FY77	282	35	250	33	250	250	33
FY78	375	41	300	37	304	300 330	36 40
FY79	420	44	375	43	349	375 403	44
FY80	470	47	450	47	402	450 497	53 ⁴⁷
FY81	527	50	530	51	448	530 592	59 ⁵⁰
FY82	590	53	610	54	501	610 709	66 ⁵³
FY77-81	2,074	217	1,905	212	1,753	1,905 2,072	229
<u>FY78-82</u>	<u>2,382</u>	<u>235</u>	<u>2,265</u>	<u>232</u>	<u>2,004</u>	2,265 2,531	<u>262</u>
FY77-86	5,776	515	5,785	511			

- 1/ Average size of project goes up from \$7.6 million in FY78 to \$8.0 million in FY82 in real terms.
- 2/ Average size of project unchanged at \$7.6 million.
- 3/ Adjusted for an inflationary factor of 7.5%.

5. Our capital increase paper and subsequent projections forecast about 53 or 54 projects in 1982, a two-third increase in real terms over the five years 1978-82, with IFC commitments amounting to about \$2 billion over this period.^{1/} I frankly think that this is too modest, given our large membership and the needs of the poorer countries which have growing expectations from IFC. I believe we ought to consider instead a plan to double the annual number of IFC's operations from 33 this year to about 66 in 1982, and I would suggest that we look at our budget for FY78 as the first step in that direction. At this time, it is not feasible for me to be very precise about the financial implications of such a target as I

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1/ You may recall that at the recent FY77 mid-year budget review, I referred to the \$2 billion target mentioned in the Capital Increase Paper.

expect that two contrary trends will affect the average size of an IFC investment. First, inflation and economic growth are likely to make the average size of transactions bigger, especially in the semi-industrialized countries where we shall support more complex projects, often requiring syndications. On the other hand, increasing emphasis on the small, least-developed countries, and on African countries in general, will be reflected in relatively small financial commitments in relation to staff. On balance, it is not an unsafe assumption that these two factors will offset each other and the average size of financial commitments will not change much. On this basis, IFC could aim by 1982 to have an annual volume of approximately \$700 million in current dollars (and \$500 million in FY77 commitment dollars) and total IFC commitments over 1978-82 would be about \$2.5 billion in current dollars.

6. Assuming that IFC's capital increase is forthcoming, I should like to reorient the focus of our attention from the volume of IFC's operations to the number of its investments. In regard to volume, my approach would be to do whatever is necessary, within the framework of our exposure and other established financial policies, to get an economically sound project going. This may mean a willingness to take a somewhat larger share of project costs than we have traditionally done in countries with poor access to the financial markets and, by contrast, putting an even greater emphasis than hitherto on syndications in the case of countries with better access. However, a two-fold increase in IFC's business in real terms is required primarily to enable IFC to have more effective coverage of its member countries and to become a factor in their thinking and planning for private sector development. At present, IFC's focus is on too few countries. A two-fold increase would permit us to have an

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operation in virtually every Part II member country at least once every two years, after allowing for more than one operation in a few countries. It should also be our aim to have made by 1982 an IFC investment in every Part II member country that wants such an investment.

7. While a doubling of IFC business in real terms together with a major reorientation in its direction and focus over the next five years should be our aim, I must confess that I cannot at this time give you the assurance that IFC is capable of achieving this target or to indicate precisely what resources I would need to meet this objective. Over the next six months, I shall be reviewing all aspects of IFC's organization, procedures and other requirements with a view to determining how we can approach this task. As indicated elsewhere, I shall be submitting to you specific proposals in each area. For the time being, I should merely like to increase the target with respect to the number of operations for 1978 to 40, retain our latest financial projections which are not inconsistent with those in our Capital Increase Paper for presentation to the Board and to come back to you around the time of the mid-year review for FY78 with a more detailed and definitive five-year program. I shall have a better feel at that time of our capacity and our needs, and the signals on the capital increase will already be in.

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8. Because staffing patterns in FY78 will affect operations in the following year, we have to start thinking now about our program beyond FY78. This is because there is a lead time of approximately one year before new staff, particularly in the investment departments, can be fully productive to IFC. Therefore, in order to reach even a figure of approximately 44 operations in FY79 (the target in our Capital Increase Paper), I would like to start building up the staff in the coming year and to hold back somewhat

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the rate of growth in FY79. In terms of positions, this policy would imply 23 additions over the 145 higher level positions authorized and expected to be filled as of June 30, 1977. Over the two-year period FY78-79, the proposed additions to higher level staff would work out to an increase in terms of man-years of approximately one quarter, compared to an increase in the number of transactions of one third (i.e. from 33 to 44 commitments).

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9. A key assumption in our programming is, of course, that our capital increase will make satisfactory progress in the next few months. If by any chance that should not turn out to be the case by May or June of this year, particularly as far as the U.S. vote on the increase is concerned, we would have to revise our targets downward substantially for the coming year, especially as far as equity investments are concerned. In order to give myself some flexibility and leeway, I am proposing that the staff increases planned for FY78 take place largely in the second half of that year, so that we could slow down our recruiting effort in the first half of the fiscal year if the need to do so should arise.

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Small and Industrially Least Developed Countries

10. A major priority is clearly to intensify our effort in the small and industrially least developed countries, most of which are in Africa. Of the 40 countries identified in the paper on IFC's Activities (Table reproduced as Annex 2), 12 are so far not IFC members, and 13 of the remaining 28 have so far received investments. Our immediate program is to increase as rapidly as possible our activities in the countries where IFC has no outstanding investments where viable opportunities exist, of which 5 (Papua New Guinea, Haiti, Honduras, Madagascar and Swaziland) are realistic candidates for investments in FY78. Altogether, we are

likely to make 6 investments in the small and least developed countries in FY77, and about ten ^{1/} in FY78, so that we are likely to overtake the minimum target of doubling the number of operations in such countries from an annual average of 3 in FY75-76 to 6 "by the late 1970s" (para. 27 of the Activities Paper). In addition, we are likely to make our first investment in Bangladesh in FY77 and a further investment is likely in FY78, together with investments in Mauritius, Sudan, and the Ivory Coast, which are poor countries that do not fall within the definition of "small and least developed" used in the Activities Paper.^{2/} A project is also planned in Gabon.

11. In the longer run, however, the important point is to develop mechanisms so that we can generate a continuing program in such countries. I have spoken with the Directors representing African countries, and several means of action appear to deserve priority. First, we ought to use more actively the format of investments in promotional companies, in cases where a project is likely to develop but where the size and duration of the task are such as to require a continuing injection of technical assistance by IFC staff. In such cases, IFC could make an equity investment, together with others in a promotional company which would be responsible for undertaking the necessary project preparation and development, including the organization of the necessary feasibility studies, before the project can be financed. If the project comes to fruition, then the IFC investment in the promotional company would be incorporated in the new enterprise.

^{1/} The possibilities are: 1 each in Afghanistan, Nepal or Sri Lanka, Madagascar, Malawi, Swaziland, Cameroon, and Liberia; and 2 in Bolivia, El Salvador, Haiti or Honduras. Of these 13, ten operations may materialize in FY78.

^{2/} Defined as having a GNP in 1975 of under \$2.5 billion and a per capita GNP of less than \$520. See Annex Table 1 for list of countries.

This approach involves additional costs for IFC but these must be accepted as a part of a more effective promotional role. Within the next few weeks, I shall submit to you suggestions for certain changes in our procedure for handling such transactions. Secondly, we should actively explore the possibility of assisting the medium and smaller sized enterprises typical of these countries by working more closely with local development banks and making investments jointly with them. The basic idea is to package a few relatively small projects together for financing purposes, and to then let the local development bank undertake the detailed field appraisal as well as the normal administration and service of IFC's loans. IFC would reach understandings, and furnish technical assistance wherever necessary, on the manner in which project appraisal should be done. In Egypt, for example, we are envisaging financing several small projects together with DIB (industrial bank), which would be restructured with the help of an IFC investment. I shall be sending you separately for your approval the outline of the scheme which we intend to negotiate with DIB in Egypt. Third, our technical assistance in the economic area will be intensified. For example, the Sudanese Government has asked our economics group to help in devising a program to identify the existing obstacles to private investment. A somewhat similar exercise is contemplated in the case of some of the Sahel countries. Fourth, the African Directors (and particularly the French-speaking Directors) have urged me very strongly to strengthen the European Office of IFC and to establish an office on the West Coast of Africa. Although I do intend to review and reorganize the activities of the European Office, I am not persuaded at this time that it would be worthwhile adding any manpower to the European Office. I do believe however that stationing a good technician

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in Abidjan as Representative for West Africa (who I would hope could be located physically in the Bank Office) would assist in project identification, promotion, and supervision in the West African countries, and I propose that we do so. JK

12. I have been agreeably surprised by the interest which several of the Part II Country Directors have expressed in an expansion of IFC's capital markets work and especially in IFC's business-oriented approach to financial institution development. My own judgment is that while we have done remarkably well in particular cases, our capital markets work still lacks a program focus. Also, we have only just begun to tap the possibilities for assisting the smaller countries in this field. In this connection, we have some new initiatives under consideration, and I shall submit to you a detailed program of IFC's capital markets activities by the end of April. good

13. Another issue which concerns the African Directors is how IFC can help to upgrade the management capacity of African enterprises and industries. This is rather a tall order and, in my view, belongs more in the field of the Bank than IFC. However, Messrs. Razafindrabe and Kpognon are insisting that IFC should bring more "businesslike" orientation to this task. Since I am not clear as to the precise requirements and the dimensions of the task, I have agreed with Mr. Kamarck of EDI that a consultant should be retained to prepare a study which would identify the nature of the problem and possible ways to attack it.) good

Semi-Industrial Countries

14. It is, of course, a gross oversimplification to divide our clients into small least developed economies, since there is a whole group of countries which are in between, whether because of their large population

(for example, Indonesia, where we have in the last year attempted with little success to generate a larger program) or because of their higher income level (for example, several of the medium-size Latin American countries). Nevertheless, the eight countries which, as of the end of FY76, accounted for 62% of the IFC portfolio (Brazil, Turkey, Korea, Yugoslavia, Philippines, Indonesia, Mexico and India) are semi-industrialized countries with the exception of Indonesia. Annex 3 shows our expected exposure in these eight countries as of the end of FY77 and FY78.

15. Historically, IFC has been most active in the semi-industrialized countries. While the aforementioned effort on the least developed countries will lead to a marginal decline in the proportion of our resources committed to the former, I believe that our role in such areas continues to be of prime importance but that it should be tailored to the priorities and requirements of each country. In general, because of the need for rapid export growth in order to make more manageable the heavy debt service burden of some of these countries, our investments should emphasize export-related projects, and should be focused on enterprises which - with our assistance - have a better chance of developing their access to the international capital markets. There is also a case for our lending a hand in the development and financing of projects which have an important contribution to make in the furtherance of the industrialization process itself -- either because of technological aspects or because the projects create important economies of scale within the industrial sector. In some of these countries, such as Brazil, Turkey and Yugoslavia, there is in addition a case for paying special attention to their least developed areas, and our operations have already been moving in this direction.

) Yes

However, we should be aware of the fact that the governments of these countries sometimes see priorities differently, so that a special dialogue is required with the authorities in order to agree on a useful program.

Project Supervision

16. I am concerned that while a major move forward and redirection of activities is both desirable and feasible for IFC, there should be no deterioration in our standards and quality of supervision. In this connection, I have to bear in mind that our portfolio is growing at an accelerated pace. From 174 projects at the end of FY75, our active portfolio will reach 226 projects at the end of FY78. In FY77 direct portfolio supervision work is estimated to account for about 18% of total higher level staff time in the investment departments, compared to about 20% in FY76. There is a heavy and rising load of supervision work and it is likely to be augmented by the increasing number of complex projects and of projects in poorer countries, both of which require constant care. We need to streamline such work and make it more economical of staff time. I have asked Mr. Parmar to head up a task force to thoroughly review our supervision procedures and to come up before the end of the present fiscal year with recommendations for a new system of project supervision within IFC.

Finance and Programming

17. Substantial improvements have taken place in our financial work in terms of more efficient management of IFC's liquidity and in terms of more effective internal financial controls and procedures. However, one area which needs strengthening concerns the programming of IFC's activities. There are two aspects to this work: the organization of operations and the relationship which they have to staff and financial resources (in

other words, the type of work now being done by P&B for the Bank) and a closer link between economic priorities and IFC prospective operations (an activity similar to that of the Program Review Division of the Policy Planning Department in the Bank). As a first step in more effective planning of our work, I propose to create a small unit of two professionals in the Finance and Management Department. This unit would upgrade the existing project programming work of IFC and provide the basic input into the work of P&B. At the same time, however, it is vitally important to link more closely the work of our economics group with operations. For that purpose, I propose to create a Program Review Committee which would periodically (every year for major countries and less frequently for other countries or group of countries) review the major priorities of IFC in particular areas and countries. The secretariat to the Committee would be our economic staff and the members would consist of myself as Chairman and the two Vice Presidents and the heads of Economics, Legal and Engineering. As in the case of the Bank, where P&B and the Program Review Division provide the basic parameters for CPP reviews, so in this case the new programming unit and our economics group would fulfill the same function, although each, of course, of the three regions of IFC would be responsible for recommending priorities and a plan in each case.

) good

good

Project Pipeline

18. The project pipeline has improved substantially in recent months, after a slump during the past year (see table below). The major reason for the decline was obviously the lagged impact of the 1974-75 inflation and recession upon investment decisions in developing countries. The recovery is partly the result of a mild uptrend in the business cycle in most developing countries, (although some major countries, such as Brazil and Mexico, are in fact entering a recessionary phase), and of a more

intense promotional effort on our part. Significant progress is being made in the small least developed countries. As indicated earlier, we hope this, together with further intensified efforts, will result in more projects in such countries next year.

IFC - PROJECT PIPELINE

	<u>End FY75</u>	<u>End FY76</u>	<u>Dec '76</u>	<u>Estimated</u>	
				<u>End FY77</u>	<u>End FY78</u>
Total projects in pipeline	<u>160</u>	<u>114</u>	<u>145</u>	<u>175</u>	<u>250</u>
Preliminary	135	88	120	150	210
Pending Appraisal Completion	12	8	10	8	14
Pending Investment Committee Review	5	10	8	9	14
Pending Board approval	8	8	7	8	12
Projects in					
Small least dev. countries	16	12	21	25	38
Other countries	144	102	124	150	195
Percentage change from previous date in total pipeline		-29%	27%	21%	33%

19. We are still at present below an acceptable number of new project proposals coming to the Corporation. In recent years we have obtained about 6 proposals for every project approved. As explained above, the business upturn and our intensified promotional effort later this year and during FY78 should adequately increase the pipeline to permit the business targets to be achieved. I am aiming at having about 210 projects at a preliminary stage at the end of FY78. A more definitive indication of the business we are able to bring to fruition is the number of projects we have appraised

over the past two years. Our data indicate that about 1-1/2 projects need to be appraised for every project finally approved. This suggests appraising some 60 projects next year as compared to some 45 that we are working on this year. Indeed, we may have to increase the figures of both preliminary projects and appraised projects above these estimates since the wastage rate in the poorer countries - where we are intensifying our efforts - is likely to be higher than the average.

Participations and Relations with Part I Countries

20. The task of obtaining participations from other financial institutions in IFC investments is becoming an increasingly more complex task. Our projections in the capital increase paper envisaged that approximately one-third of IFC's future business commitments would be so financed. As you know, the participations activity is related largely to projects in the more advanced developing countries. But even in these cases we find that international private financial institutions are becoming increasingly more demanding with respect to the conditions and terms (e.g., the right to pre-empt a loan) which they would like to see applied to an investment in which they take a participation. This has implications for IFC's role and relationship with its clients and member countries. Another problem is that the conditions in financial markets which determine the availability of participations tend to change suddenly and sharply in a way unrelated to the needs of the developing countries or to our own program objectives and targets. I have asked Mr. McClure to head up a task force to make a comprehensive review of our participation activity and to come up with specific recommendations on our targets and methods of operation in this

area. I hope to be able to send you a paper defining our activities and program in this area by the end of this fiscal year.

21. A related area is that of our relations with Part I countries - governments, institutions and enterprises. This has increased importance principally because of the pending action on our capital increase, but also because of the possibility of our undertaking some market borrowing in the future, and because contacts with enterprises in Part I countries, who might serve as technical partners, are an essential requirement for our promotional work in the developing countries. I intend to devote some of my own time as well as that of my senior colleagues to this task in the coming year.

Major Departmental Priorities

22. For planning purposes, we can look upon the geographical areas of IFC as divided into three centers of responsibility: Africa and the Middle East, Asia, and Latin America and Europe (consisting of the Investment Departments for South America and for Central America, Mexico and Europe).

23. In the case of Africa and the Middle East, the major additional effort for FY78 will be in the area of promotion, where we are planning 10 major country promotional missions, of which four would be undertaken with the help of UNIDO staff. The countries to be covered would be ten of the following: Lesotho, Botswana and Swaziland, three of the five Sahel countries, Rwanda, Zambia, Ghana, Mauritania, Burundi and Oman. In addition, a mission will visit the Arab Republic of Yemen in the next few weeks. A number of smaller promotional efforts are envisaged in other countries. Frankly, we should not be overoptimistic about the possible results of these efforts, although they should

in time lead to promotional investments and, then, hopefully, to actual transactions. Clearly, we will have to rely on cooperation from Bank staff and resident missions to the extent possible and on outside help, such as that which we are discussing with UNIDO.

24. We have at present three major projects under active consideration in this area, all three of which have a reasonable chance of materializing into actual investments in FY78: the LAMCO iron ore project in Liberia where we are actively engaged as an intermediary in the discussions between the Government and the sponsors; the Swaziland sugar project, in which the staff has already invested considerable time, needs a clearer financial package but is likely to come forward early in the next fiscal year; finally, we are trying to resolve a variety of problems in the case of \$300 million Jordan Fertilizer Industry project. Altogether, with a major effort in the next few months and early in the coming fiscal year, the Africa and Middle East group should be able to generate 11 to 13 investments in FY78 compared to 10 in FY76 and probably 8 in FY77 (see Annex 3 attached). With the intense promotion effort planned, further growth can be expected in FY79.

25. In the case of Asia, we expect to put more promotional effort into the small least developed countries (Afghanistan, Nepal, Sri Lanka and Papua New Guinea). Major countries in this area with potential for an IFC contribution are India, Philippines, Malaysia, Indonesia and Korea. We intend to make a systematic new effort in India in close consultation with the Government. With an improvement in the prospects of private enterprise in India and in the attitude of the Government towards IFC, we should be able to play a role in the area of export industries and certain major industrial facilities requiring joint ventures with foreign technical

partners. Two projects for a total of about \$20 million are envisaged there. We are also making a special effort in Bangladesh, and expect to do one project in FY78. In the case of the Philippines, where our South East Asia mission will begin operating at the end of March, we are giving emphasis to natural resource development and we are contemplating at least two investments - possibly both in the mining sector - for a total of \$25 million. Our operations in Malaysia may reactivate as a result of the fact that local financial institutions are no longer able to meet the investment needs of the industry on their own. Our Manila Office will undertake a major effort in Indonesia and one investment can be expected in that country. In Korea, our problem is not lack of projects. A recent economic mission of IFC has had fruitful discussions with the Government, and we are in the process of working out a medium-term strategy where a key point would be to work with substantial Korean groups to increase their access to external capital markets; we are planning two transactions for FY78 for a total of \$20 million. Altogether 11 to 12 investments are envisaged in Asia - of which three would be in small least developed countries or the same number as in FY77.

26. In the case of Latin America and Europe, we have active promotional efforts in the case of Colombia and Mexico. In the case of Colombia, one operation in downstream industry made possible by our investment in the natural gas pipeline should be possible in FY78. In Mexico, we have several possibilities which should materialize in the next few months and, in addition, we are actively discussing with the authorities several possible investments in the capital goods areas which were studied last year by an IFC economic mission, although these possibilities are unlikely to materialize

before the end of FY78 or FY79. There are several projects identified in Argentina, and I think that we should plan on up to two investments there in FY78 for a total of about \$15 million. Given the fairly high rate of inflation which still characterizes Argentina, these would be straight loans in established companies, with a relatively low risk profile, but with the expectation of a major impact in terms of increased production and favorable balance of payments effects. In the case of Brazil, in addition to our focus on the Northeast, helping enterprises gain access to the external markets should constitute a major priority. The constraint on our operations is exposure, so that for FY78 we are only planning two investments for a total of \$20 to 30 million. We have not done anything in Chile for quite some time although we have several requests pending on our books. If you feel that we can now start in a selective way, we would be prepared to move ahead with consideration of a major LNG project, all for export.

27. In the European area, the two countries where IFC has been most active are Turkey and Yugoslavia. The same general operational strategy as in the case of Brazil (access to external markets, focus on less developed areas) is true for these two countries. We would plan on no more than two projects each for Turkey and Yugoslavia, for a total of about \$15 million and \$20 million, respectively. In Greece, one of the higher per capita countries in the region, we hope to complete a syndication in NIBID in the summer of 1977, and we expect to do one project in FY78, hopefully of significant national economic priority involving a major development in bauxite mining, asbestos mining and magnesite. In Portugal, we intend to join with the proposed Bank economic mission and hope to develop a

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basic understanding with the Government and with the private financial community. Contingent upon the improving environment, we may be able to make a first investment in Portugal.

28. We have devoted considerable promotional effort on the Central American countries (El Salvador, Guatemala, Costa Rica, Panama, Dominican Republic) and the Caribbean countries (principally Haiti, Guyana, Jamaica) during the past year, and we plan to step up the effort during FY78. As in the case of Africa, the main emphasis is on project identification and development. I am hopeful that we shall make at least two investments in this area during FY78.

29. Altogether, the Latin American and European area is in a reasonable position to generate 17-18 investments in FY78 - of which I would expect that three would be in small, least developed countries.

Manpower Implications

30. If you approve of the basic approach and orientation of the program outlined above, then the budget that I would propose to submit to you for FY78 would envisage a substantial growth in staff over the next two years. I estimate that as a minimum we shall need 154.5 man-years in FY78, and an increase of about 20 man-years from FY77. And assuming only 44 investments in FY79 (in line with the financial projections in the Capital Increase paper) the figure for FY79 would be 168 man-years. You will note that in terms of the overall effort of the Corporation - projects to the Board, project review and appraisal, technical assistance, portfolio and management - I envisage a marked increase in productivity in the sense that more tasks would be done per man-year. The table below compares total

man-years available with the growth in commitments, without counting other aspects of the effort mentioned above.

IFC - COMMITMENTS AND MANPOWER
FY77-79

	<u>FY77</u>	<u>FY78</u>	<u>Annual % Increase</u>	<u>FY79</u>	<u>Annual % Increase</u>	<u>Compounded Annual Rate FY77-79</u>
<u>Number of Commitments</u>						
Shown in FY77 Budget	35	41	17	44	7	12.1
Revised Estimate	33	40	21	44	10	15.5
<u>Number of Man-Years</u>						
Shown in FY77 Budget	139.1	153.1	10	166.8	9	9.5
Revised Estimate	134.0	154.5	15	168.0	9	12.0

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31. A more detailed analysis of IFC's productivity indicators is shown in Appendix Table 4 which also indicates the coefficients of manpower per commitment directly involved in the task of doing new business and supervision. Here we must recognize that the additional effort to be devoted to the smaller countries, plus our increasing developmental focus regarding operations in the larger countries, will inevitably require, for some time to come, additional man-years per commitment in the Investment Departments. Subsequent to the increase which occurred in FY77, I have made the somewhat bold and as yet untested assumption that over the next two fiscal years we shall be able to offset the additional manpower per commitment to be devoted to work in the smaller countries by greater efficiency in operations in the larger countries. Similarly, I have assumed that we will be spending only slightly more man-years (from 0.14 M/Y to 0.15 M/Y) per portfolio investment than we have been doing so far. If we can meet these targets I shall be more than satisfied.

32. If the basic premise of this program is accepted, in the sense that we should staff up now for a higher and reoriented rate of growth in the future, I would request 23 additional positions in FY78. It assumes that all of our authorized positions in FY77 (145) are filled by the end of the year and that we shall recruit at a rate during FY78 resulting in a fill rate for new positions of 54% (i.e. actual additional man-years in FY78). An addition of 23 positions in FY78 would also be well within the manpower requirements implied in the business estimates projected for FY79 in the Capital Increase paper. The positions would be divided as follows:

IFC HIGHER LEVEL STAFF

	Authorized <u>FY77</u>	Planned On Board <u>6/77</u>	Request <u>FY78</u>
<u>Investment Regions</u>	<u>69</u>	<u>72</u>	<u>85</u>
Africa & Middle East	15	17	23
Asia	15	15	17
Latin America & Europe	30	31	35
Capital Markets	9	9	10
<u>Support</u>	<u>47</u>	<u>47</u>	<u>53</u>
Legal	14	15	17
Engineering	21	20	23
Economic	6	7	8
Special Projects	6	5	5
<u>Executive, Finance & Management & Other</u>	<u>29</u>	<u>26</u>	<u>30</u>
Total	<u>145</u>	<u>145</u>	<u>168</u>

33. My immediate Office includes 13 at present. This figure includes Marketing (basically our participations and co-financing work), Information (known as "Business Relations"), two representative offices and advisers for DFC's and for special assignments (primarily projects in severe difficulty). This organization will, I would hope, substantially change as part of the

reorganization which I would like to consider with you sometime before the middle of the year. That reorganization and the extent to which I can feel more assured in the course of the first half of FY78 that we can indeed meet our long-term expanded targets - a function both of the progress on the capital increase and of the success of our promotion efforts - will determine the extent to which we effectively staff up to the extent suggested here. In order to be effective under uncertain circumstances, however, I would very much welcome the flexibility which an authorized staffing pattern such as that suggested here would give me.

Financial Implications

34. The rate of expansion proposed for FY78 will obviously lead to higher administrative expenses than projected on page 21 of the paper on "IFC's Activities". The revised projections would be as follows:

	<u>IFC ESTIMATED EXPENSES</u> (Current US\$ millions)			
	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
Original	11.4	13.8	16.4	19.2
Revised	11.4	13.5	16.9	19.6

Such a projection does not in my view present a problem for the Corporation and is within the bounds of our most recent financial projections.

Conclusion

35. In brief, I believe we should plan for an IFC program in FY78 that might be the first step towards a doubling of IFC business in real terms over the next five years. The proposed expansion should involve a major reorientation of strategy with an emphasis on projects rather than volume, on expanding our country coverage, on better identification of the needs and priorities of

our members with a view to meeting their requirements in a flexible and innovative manner, and on a reinforced program of assistance to the smaller and least developed countries.

36. I do not underestimate the considerable obstacles which confront this task. IFC would be moving into countries and activities which are likely to prove both more costly and more risky, and the effort is bound to stretch our capacity to the full. It will take time and organized effort to recruit and train new staff. Even more important, as you know, I have a serious shortage of senior and experienced colleagues to provide the direction and supervision that is necessary at various levels. Nevertheless, having thought carefully on all these aspects, I have come to the conclusion that the objectives and targets I have outlined are not out of reach, that the member countries are expecting a great deal from IFC in the context of the capital increase, and that it is therefore incumbent upon us to move in these directions and justify more fully IFC's promise as a development institution.

March 3, 1977

IFC - PROJECT COMMITMENTS FY78

<u>Regions</u>	<u>Number</u>	<u>Total IFC Commitment \$ million, including participants</u>
<u>Africa & Middle East</u>		
Eastern Africa	3-5	20.0-25.0
Western Africa	5-7	15.0-20.0
Middle East	3-6	25.0-35.0
of which Jordan	<u>[1]</u>	<u>[20.0]</u>
	<u>11-13</u>	<u>60.0-80.0</u>
Small and least developed countries included above	5-6	30.0-32.0
<u>Asia</u>		
India	2	20.0
Philippines	2	25.0-30.0
Korea	2	20.0-25.0
Indonesia	1	4.0
Other	<u>5</u>	<u>21.0-26.0</u>
	<u>11-12</u>	<u>90.0-105.0</u>
Small and least developed countries included above	3	8.0-10.0
<u>Latin America & Europe</u>		
Argentina	1-2	15.0
Brazil	2	20.0-30.0
Colombia	1	10.0
Mexico	2	20.0-30.0
Turkey	1-2	15.0
Yugoslavia	2	20.0-25.0
Central America & Caribbean	5-4	15.0
Other	<u>3</u>	<u>35.0-25.0</u>
	<u>17-18</u>	<u>150.0-165.0</u>
Small and least developed countries included above	2	10.0
Total	39-44	300.0-350.0
of which small least developed	10-11	48.0-52.0

IFC COMMITMENTS IN SMALL COUNTRIES AND COUNTRIES AT AN
EARLY STAGE OF INDUSTRIAL DEVELOPMENT ^{1/}

<u>Countries</u>	Population 1975 (millions)	GNP 1975 (Current \$ billion)	Per Capita GNP 1975 (1975 \$)	IFC Commitments FY66-76 (\$ millions)	Total Project Cost (\$ millions)	<u>Fiscal Year</u>
Afghanistan	17.3	2.3	130	0.3	13.4	1973
Benin ^{2/}	3.1	0.4	140			
Bolivia	5.7	1.9	320	1.3	2.1	1973, 1976
Botswana ^{2/}	0.6	0.2	330			
Burundi ^{2/}	3.6	0.4	100			
Cameroon	6.4	2.1	330	0.5	6.7	1975
Central African Republic ^{2/}	1.8	0.4	230			
Chad ^{2/}	4.0	0.5	120			
Congo, People's Republic of ^{2/}	1.3	0.7	500			
El Salvador	4.1	1.8	450	0.9	3.7	1969
Equatorial Guinea ^{2/}	0.3	0.1	320			
Ethiopia	27.2	2.7	100	1.9	8.7	1966
				9.0	22.5	1968
				0.6	5.0	1970
				1.7	4.5	1973
Gambia ^{2/}	0.5	0.1	190			
Grenada	0.1	0.1	370			
Guinea ^{2/}	5.5	0.7	130			
Haiti	4.5	0.8	180			
Honduras	2.9	1.0	350			
Jordan	2.8	1.3	460	1.8	7.2	1974
				3.2	63.0	1975
Lesotho	1.1	0.2	180			
Liberia	1.6	0.6	400	0.3	4.5	1966
Madagascar	8.8	1.6	180			
Malawi	4.8	0.7	150	6.0	12.4	1976
Mali ^{2/}	5.5	0.5	90			
Mauritania	1.4	0.4	310	20.0	60.0	1968
Nepal	12.5	1.4	110	3.2	7.3	1975
Niger ^{2/}	4.5	0.6	130			
Papua New Guinea	2.7	1.2	450			
Rwanda	4.3	0.4	90	0.5	1.6	1976
Senegal	4.2	1.6	370	3.5	12.4	1967
				0.2	4.0	1974
				0.1	3.9	1974
				0.7	6.5	1976
Sierra Leone	2.9	0.6	200			
Somalia	3.2	0.3	100			
Sri Lanka	13.8	2.1	150	3.2	13.8	1970
Swaziland	0.6	0.3	470			
Tanzania	14.7	2.5	170			
Togo	2.2	0.6	270			
Upper Volta	5.9	0.5	90			
Western Samoa	0.2	0.1	320			
Yemen Arab Republic	6.5	1.4	210			
Yemen P.D.R. ^{2/}	1.7	0.4	240			
Total IFC Members	162.4	30.5	188	58.9	263.2	
Total Non-IFC Members	32.4	5.0	154	-	-	
GRAND TOTAL	194.8	35.5	182	58.9	263.2	

^{1/} Defined as having 1975 GNP of under \$2.5 billion and per capita GNP of less than \$520.

^{2/} Not a member of IFC.

Portfolio Held by IFC^{1/}
12/31/76 & Projected to 6/30/78
(in millions of US\$)

ANNEX 3

Country	Portfolio held by IFC 12/31/76		Net change ^{2/} In Portfolio	Projected Portfolio held by IFC 6/30/77		Net change ^{2/} In Portfolio	Projected Portfolio held by IFC 6/30/78	
	Amount	Percentage	1/1/77-6/30/77	Amount	Percentage	7/1/77 to 6/30/78	Amount	Percentage
Brazil	94.4	12.2	36.1	130.5	14.3	13.1	143.6	13.4
Turkey	86.6	11.2	6.8	93.4	10.2	8.1	101.5	9.4
Korea	69.3	9.0	9.9	79.2	8.7	16.9	96.1	8.9
Yugoslavia	67.6	8.8	15.5	83.1	9.1	9.5	92.6	8.6
Philippines	52.7	6.8	6.5	59.2	6.4	14.8	74.0	6.9
Indonesia	35.7	4.6	0.4	36.1	4.0	0.9	37.0	3.4
India	32.0	4.2	(1.1)	30.9	3.4	12.9	43.8	4.1
Mexico	<u>31.8</u>	<u>4.1</u>	<u>(0.2)</u>	<u>31.6</u>	<u>3.4</u>	<u>18.5</u>	<u>50.1</u>	<u>4.7</u>
	470.1	60.9	73.9	544.0	59.5	94.7	638.7	59.4
Others	<u>300.8</u>	<u>39.1</u>	<u>69.1</u>	<u>369.9</u>	<u>40.5</u>	<u>66.9</u>	<u>436.8</u>	<u>40.6</u>
Total held	<u>770.9</u>	<u>100.0</u>	<u>143.0</u>	<u>913.9</u>	<u>100.0</u>	<u>161.6</u>	<u>1075.5</u>	<u>100.0</u>

1/ Includes disbursed and undisbursed commitments held by IFC.

2/ New commitments less repayments, sales and exchange adjustments.

SJM :3/4/77

IFC PRODUCTIVITY INDICATORS

(Man-Years by Type of Work Activity)

	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
Work on new business work	49.3	54.2	64.8	71.9
Work on portfolio	24.3	26.1	30.3	33.0
Country strategy studies & tech. asst.	5.1	5.4	6.1	7.1
Subtotal	<u>78.1</u>	<u>85.7</u>	<u>101.2</u>	<u>112.0</u>
Management, Administration & Overhead	44.8	48.2	53.3	56.0
as a percentage of total work	36%	36%	34%	33%
Total	<u>123.3</u>	<u>134.0</u>	<u>154.5</u>	<u>168.0</u>

Memorandum Items

Commitments during year (number of commitments)	33	33	36-40	44
Pipeline at beginning of year (number of projects)	160	114	175	250
New business man-years per commitment	1.49	1.64	* 1.62	1.63
Portfolio man-years per company	.14	.14	.15	.15
Total man-years per commitment	3.74	4.06	3.86	3.82

874/5/5

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 12, 1976

FROM: L. von Hoffmann

SUBJECT:



There are several issues on which I would like to bring you up to date or ask for your decision:

1. On the U.S. Legislation for the IFC capital increase, the Draft Legislation has been transmitted by the Treasury to the House and I understand that the first discussion will take place on March 16 in the Appropriations Committee, when matters concerning other international institutions (IDB, ADB, IDA) will also be considered. Other hearings are not yet set and will probably not be held until the IFC Board approves the capital increase. We are working on various papers which the Treasury has requested as background material.

Sched for Bd mtg 4/1

2. We have checked with the Australian authorities on their position with regard to IFC's capital increase and we are told that while a full review of Australia's aid policies is being undertaken the basic attitude towards IFC is quite favorable. You may wish to refer to the IFC capital increase when you see the Australian Secretary of the Treasury next week.

3. You will recall that you have told the Israelis that while the Bank would stop lending to Israel IFC would continue to consider commitments. We have made one commitment of \$7 million this year in Israel and I would like to proceed with a second commitment for about \$8 million in this Fiscal Year. The project is the expansion of a fertilizer operation in Haifa to produce a special product mainly for export. May I have your approval to proceed, subject to a satisfactory appraisal.

Do not proceed until review complete. Reconsider by me here

4. You will recall the long standing request for IFC to become a shareholder in Banco Unido de Fomento, the newly established development bank in Chile. We again have been requested by the Chileans to go ahead. I am told that the Inter-American Development Bank is completing negotiations for a loan to the Central Bank of Chile, part of which will be relent to BUF. The matter is to be considered by the IDB Board towards the end of April. I also understand that the Bank is sending in April a mission to investigate the possibilities for a similar loan by IBRD. As I told you before I feel that IFC has a real institution building role in this case. Chile lacks a system of sound industrial financing institutions and BUF is intended to be the most important institution in this field. The IFC equity investment would be of the order of \$0.8 to \$1 million and BUF has also asked us to consider a loan of \$3-4 million since it is a condition of the IDB financing that they obtain matching loan funds from other sources. If you agree that we should now proceed I would try to coordinate the Board presentation with that of IDB.

Back Chilean credit institution

Good marginal projects. Don't think so much for IFC to do with its own resources.

3/15

March 12, 1976

5. If our present plans for Board approvals are met, we will have to obtain a loan from IBRD in April or in May. We are still checking our numbers but it appears that we would seek a loan of \$70 million which is consistent with what we have told the Board earlier about our FY1976 needs.
6. I am attaching copies of an exchange of letters with Rep. A. Johnson which are self-explanatory.
7. I have seen Chadenet's memo to you of March 9 regarding the housing allowance for Strobl. I am not aware that the Bank has concerned itself with the question of whether its overseas staff lives in a better area of any particular city or not. It seems to me rather that the question is what amount of money do we consider appropriate and consistent with allowances given to other overseas staff in similar locations and it is none of our business where anyone chooses to live. I have the impression that Mr. Strobl's case is being judged by different standards than others, perhaps because the transfer of the IFC office to London has been quite unpopular with a number of people in the Bank, or perhaps because people feel more strongly about comparisons in London than elsewhere. If the issue is that the Bank overseas staff compensation and allowance policy needs to be reviewed, I fully agree, as from the limited experience of IFC, and from what I hear, I think we are perhaps overly generous. However, this is a general matter and we now have to make a decision on Mr. Strobl's arrangements, which we have discussed with Personnel for some six months. The question in my view is not whether Mr. Strobl is going to live in this part or that part of town, but whether the proposed housing subsidy, which has been discussed and agreed with the Personnel Department, is consistent with what the Bank is doing in other comparable places for its overseas staff. From what I am told, it is. I would appreciate your decision, since we owe it to Strobl to enable him to settle down, for which he must know the financial arrangements which we are willing to make.

*But not
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allow of
right)*

LvH/mjl

Attachments

International Finance Corporation

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

(202) 393-6360
Cable Address: CORINTFIN

8/14/5 14

March 12, 1976

The Honorable
Albert W. Johnson
U.S. House of Representatives
Committee on Banking, Currency and Housing
2129 Rayburn House Office Building
Washington, D.C. 20515



Dear Mr. Johnson:

Thank you for your letter of March 9 inquiring about IFC's position with regard to the cold storage project in Egypt proposed by the Carland Company of Frankfort, Michigan.

IFC was first approached by the U.S. sponsors with this proposal in the summer of 1975 at the suggestion of OPIC. From our quick review of what the sponsors told us at that time, it was evident that while the project might have some merit, its feasibility would be greatly affected by the conditions under which it would be licensed by the Egyptian authorities. As you may know, every foreign investment venture in Egypt, even a joint venture with local state agencies as in this case, requires a variety of Government authorizations, of which one of the most important is the basis on which the project, once in operation, will be able to acquire foreign exchange to pay for imports, debt service and profit transfers.

From the documentation submitted to us by the sponsors, it became apparent that there were some unusual features in the Government licence issued, which needed clarification. IFC staff told the sponsors that before proceeding with a detailed study, we wished to ascertain the position of the appropriate Egyptian authorities with regard to the project. This is quite a usual procedure, as it would be a waste of everybody's time to process an investment application for a project which did not have the appropriate authorization from local authorities for a successful operation.

It has taken many months to clarify matters on the Egyptian side and we were finally advised around the end of the year that the Government had issued a modified licence. In practical terms, the meaning of the licence is that the bulk of the foreign exchange needed for the project's

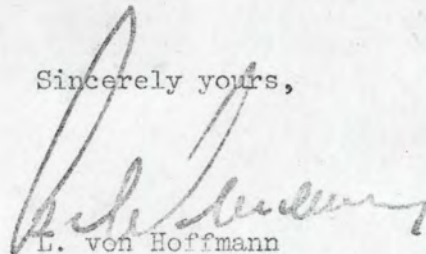
operation must either be earned through exports or bought in the open market at a substantially higher exchange rate than that applicable to official transactions. Obviously, this condition, which was not taken into account in the sponsors' study presented to us, can have a most serious impact on the viability of a project, such as this one, which is designed to serve the local market at rates regulated in local currency and which has no significant potential to earn foreign exchange.

I then asked my staff to review the information which the sponsors gave us to see whether a detailed study was warranted, or whether we should decline now to participate. From this review I have great doubts as to the viability of the proposal, but to be helpful I have concluded that we should examine the matter more closely and we have told the sponsors that we are willing to do so. I am enclosing for your information a copy of our letter to the sponsors.

While all this may appear rather protracted, I am certain that you will appreciate the responsibility which we feel for making sure that our resources are not only invested in economically useful projects, but that there also be reasonable prospects of recovering these resources. Under the difficult circumstances which prevail in Egypt at this time, which so far have made it impossible for IFC to conclude a commitment in that country, investment decisions require special care to make sure that both these criteria are met.

Please let me know if you would like to have any further explanation in this matter.

Sincerely yours,



L. von Hoffmann
Executive Vice President

Enclosure

HENRY S. REUSS, WIS., CHAIRMAN
WRIGHT PATMAN, TEX.
WILLIAM A. BARRETT, PA.
LEONOR K. (MRS. JOHN B.) SULLIVAN, MO.
THOMAS L. ASHLEY, OHIO
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JERRY M. PATTERSON, CALIF.
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HAROLD E. FORD, TENN.
CARROLL HUBBARD, JR., KY.
JOHN J. LAFALCE, N.Y.
GLADYS NOON SPELLMAN, MD.
LES AUCOIN, OREG.
PAUL E. TSONGAS, MASS.
BUTLER DERRICK, S.C.
PHILIP H. HAYES, IND.
MARK W. HANNAFORD, CALIF.
DAVID W. EVANS, IND.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

March 9, 1976

6141
ALBERT W. JOHNSON, PA.
J. WILLIAM STANTON, OHIO
GARRY BROWN, MICH.
CHALMERS P. WYLIE, OHIO
JOHN H. ROUSSELOT, CALIF.
STEWART B. MCKINNEY, CONN.
JOHN E. CONLAN, ARIZ.
GEORGE V. HANSEN, IDAHO
RICHARD T. SCHULZE, PA.
WILLIS D. GRADISON, JR., OHIO
HENRY J. HYDE, ILL.
RICHARD KELLY, FLA.
CHARLES E. GRASSLEY, IOWA
MILLCENT FENWICK, N.J.

225-4247

Mr. Ladislaus Von Hoffman
Executive Vice President
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Von Hoffman:

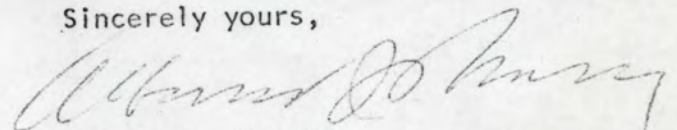
I am writing to you in regard to a pending application before the International Finance Corporation of a joint venture for construction and operation of cold storage and related facilities in Cairo, Egypt, as proposed by the Carland Company, Frankfort, Michigan. Mr. Custer T. Carland, of Michigan, is a cosponsor of this application, and it is my understanding that the application has been under consideration for a number of months.

As I am informed that this proposal has a great deal of merit, I would be most appreciative of being advised of the current status, as well as when a final decision might be rendered.

Thank you for your interest and cooperation.

With best regards,

Sincerely yours,



ALBERT W. JOHNSON

jm

International Finance Corporation

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

(202) 393-6360
Cable Address: CORINTFIN

March 12, 1976

Mr. Custer T. Carland
President
Carland Marine & Construction Co., Inc.
Frankfort, Michigan 49635

Dear Mr. Carland,

Cairo Cold Store

As you know, we have been reviewing during the past few weeks your proposed Cold Store project, to the extent feasible on the basis of project information which we have in Washington, much of which you supplied to us.

We would, therefore, like to tell you how we see the situation and what we would be willing to do. We see three principle issues in the Cairo Cold Store project that result in considerable risk that IFC's investment criteria might not be met. First, there are serious risks that given the project's basic domestic market orientation, foreign exchange earnings needed for operations and debt services would be difficult to generate and could not be forecast with reasonable certainty. This would mean the company would be left to the vagaries of the so-called "own" exchange market. One risk is how this market will operate in the future. Another is that assuming the present pattern of the foreign exchange market remains, the purchase of needed foreign exchange by the project at the higher exchange rate has extremely serious implications for the cash flow of the project.

Second, the project concept, i.e. a large centralized facility with its resultant logistical and managerial problems might appear difficult to implement successfully in the present Egyptian environment. Profitability will be largely dependent on rates, which can be Government controlled. Solutions to these problems need clear demonstration.

Third, we require that goods and services purchased for projects financed by us be competitive in price and this is sometimes difficult to establish in turn-key jobs, as is proposed in this case. We would have to clearly establish the reasonableness of the cost of services, construction, and equipment.

If, in spite of the reservations noted above you wish to pursue the project with IFC, we are prepared to proceed with an examination of project issues in Egypt. We would send a member of our staff, together with a

suitable consultant, to Egypt as soon as it could be arranged. We would expect that it may take two-three months to arrive at firm conclusions.

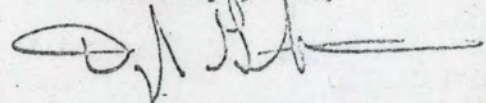
I should also note that, at this stage, we do not see that an equity participation by IFC would be likely. Also, you are aware that the financial plan originally proposed required other foreign exchange and domestic currency lenders besides IFC and, were the project to move ahead, those requirements still stand.

An added factor in these deliberations has been uncertainty with respect to general issues facing the Corporation as an investor in Egypt. Although we expect these issues to be resolved, they have prevented the Corporation from concluding any investment in Egypt to date.

If you agree to this plan, we will move forward in scheduling the mission and would advise you of the dates as soon as they are available.

With best regards,

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'D. Gustafson', with a long horizontal line extending to the right.

Douglas Gustafson
Deputy Director of
Investments, Africa &
Middle East

814/5/3

January 28, 1976



MEMORANDUM FOR MR. VON HOFFMANN

This is in response to your memorandum, dated January 26,
subject: "IFC Capital Increase".

As I explained to you this morning, the United States has suggested drastic changes in the future lending program of the Bank. If the US ED were to hold to this position in the Board, it would cause other Directors to seriously question proceeding at this time with the proposed increase of \$480 million in IFC capital. Therefore, I do not believe we can schedule a Board meeting on the IFC capital increase until this matter has been resolved. I hope we will make progress toward that end on Saturday of this week.

The decision we made this morning to eliminate the proposed IFC stock dividend will permit the United States to move ahead with IFC legislation. I understand that the Government plans to do so.

Robert S. McNamara

RMcN:bmm