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Role of the Bank

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Role of the Bank - Correspondence 02

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

711/4/21

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, Mr. J. Burke Knapp

DATE: July 25, 1977

FROM: War

Warren C. Baum

SUBJECT:

"Sector Lending" in FY 1977

Attached is a summary table you requested on "sector lending" in FY 1977, arising from our discussion of Mr. Ryrie's paper on the subject. Any definition of sector lending is somewhat arbitrary. The one that I have used is where the Bank project comprises all or the principal part of the investment program for the sector or sub-sector. On this basis, I have classified as sector lending all 7 loans for telecommunications and railways; in addition, 2 sector loans were made in highways (Ethiopia, Kenya feeder roads), 1 in irrigation (Malaysia) and 1 in water supply (Brazil). I have also identified separately the "line of credit" operations for DFC's and agricultural credit. The back-up tables from which the summary table was prepared are available from Mr. King.

I am also attaching copies of two internal Bank Guidelines on the subject; CPM 8.2 on Sector Lending and CPM 8.3 on Highway Sector Lending.

cc: Mr. King

WCBaum:rma

FY 1977 BANK/IDA LENDING BY SECTOR

	No. of Loans	\$ Amount (Million)	
Agriculture & Rural Development	84	2307.9	
* Agricultural Credit ** Malaysia Irrigation	9 1	374.0 39.0	
** Telecommunications	<u>2</u>	140.0	
* DFC	25	756.2	
Education	<u>17</u>	288.6	
Non-Project (Program)	<u>6</u>	216.5	
Industry	14	736.8	
Population	4	47.3	
Power	<u>17</u>	951.5	
Tourism	4	98.6	
Transportation	34	1047.6	
** Railways ** Kenya Feeder Roads ** Ethiopia Highways	5 1 1	150.5 8.0 32.0	
Urban	<u>5</u>	158.2	
Water Supply	14	300.7	
** Brazil	1	40.0	
Technical Assistance	<u>6</u>	16.9	
Totals:	232 1/	7066.8	
ch: for Line of Credit:	34	1130.2	
for Sector or Sub-Sector 1er		409.5 7t/02-	- 5

Line of Credit (Agriculture and DFC) Sector or Sub-Sector Lending

This figure includes 4 Supplemental and 6 Technical Assistance Loans

CENTRAL PROJECTS MEMORANDUM NO. 8.2

SECTOR LENDING

- 1. There may be situations when the Bank could use its staff more effectively and make a greater contribution to the development of the borrowing countries if it were to focus more on the achievement of overall sector objectives, the improvement of sector policies and the development of appropriate institutions, and relatively less on the merits of specific investment projects. "Sector lending" is often referred to in this context as a suitable lending technique. "Sector lending" is also often proposed as a convenient means for accelerating the disbursement of loans in cases where a rapid transfer of resources is essential. These considerations take on added significance in the light of the energy crisis and the expanded objectives of the Bank's revised Five Year Program.
- 2. The purpose of this note is to consider more closely the meaning of such "sector lending" and the role it may usefully play in Bank operations. "Sector lending" has been loosely used to describe a variety of development aid activities. From the Bank's point of view, however, "pure" sector lending consists of the following elements:
 - a) A review by the Bank of the investment program of the sector or subsector (e.g. highways, railways, telecommunications, power, water supply, livestock or steel) as a whole;
 - b) A review by the Bank of the institutional capability to carry out that program;
 - c) A review of the investment criteria by which individual projects or subprojects are to be appraised by the responsible authority;
 - d) A determination of what conditions are appropriate as sector objectives, policy changes or measures of sector performance (e.g. tariff increases or institutional reforms); and
 - e) A determination of the procedures for procurement and disbursement for items to be financed by the Bank.

If the Bank is satisfied on these five points and agreement can be reached concerning them with the borrower, the investment program for the sector becomes the "project", and the Bank finances certain parts of it that qualify for Bank financing under the criteria determined by paragraphs (c) and (e).

- 3. The merits of sector lending so defined are, in general terms,
 - a) It broadens the developmental impact of lending operations;
 - b) There are economies in the use of Bank staff;
 - c) It is possible to commit large sums; and
 - d) These sums can be quickly disbursed.

However, these general advantages are not necessarily exclusive to sector lending, nor does sector lending necessarily have such favorable results in all cases, as discussed further below.

- 4. With respect to the broader developmental impact and economies of staff use, it should be noted that though other development agencies have used sector lending for the purpose of introducing conditions relating to sector objectives and sector performance, the Bank has increasingly used such conditions in many of its ordinary project loans although this practice varies between sectors. Sector lending per se is not needed to achieve this objective. Furthermore, staff economies through the sector-lending approach presuppose that the institutions are experienced and well-staffed and capable of carrying out the investment program in accordance with the criteria established for investment, procurement and disbursement, and that the sector conditions can be adhered to by the borrower.
- 5. With respect to the prospects for large, rapidly disbursing loans, these advantages can be realized only if the program is large enough for a short-time slice to permit large commitments and disbursements under the agreed procurement and disbursement rules. These conditions are not inherent in sector lending in cases where the Bank-financed investment program is only getting under way and therefore consists of items at a relatively early stage of execution. For sector lending to result in fast disbursement, it must involve financing by the Bank of a list of items forming part of many subprojects in varying stages of execution; in particular, to gain the necessary momentum and to take full advantage of this type of lending, a series of loans, covering a number of successive timeslices of the program, is required.
- 6. The Bank has made very few sector loans including all the elements listed in paragraph 2; probably only some of the Mexican power loans, the Indian railway loans and the most recent loan for water supply in Brazil come close to qualifying. Typically, loans which might appear to be sector loans do not have all these elements. For example, while DFC loans are not based on Bank analysis of specific projects, they have not, at least in the past, been predicated on a review of the sector program and sector conditions have not been attached to them; industrial import loans are not made for specific projects and usually have some sector conditions attached to them, but there are no agreed investment criteria; for telecommunication and railway projects, the Bank reviews the sector investment program which is usually the project, and establishes sector conditions, but it also

makes a technical appraisal of the specific investments which make up the program/project as well; agricultural credit loans do not normally require agreement on a formal sector investment program or on sector conditions, although such agreements are common in some subsectors, e.g. livestock.

- 7. It seems likely that the prerequisites described in paragraphs 4 and 5 can be met in more cases than the few identified in paragraph 6 and if they can, the Bank can usefully do more "pure" sector lending. Although it generally requires both a large investment program and an experienced and sophisticated borrower and is, therefore, not a general purpose tool suitable for all countries and sectors, sector lending is a useful technique which can help to keep up the volume of lending and disbursements and provide an effective means for bringing about changes in sector objectives, policies and operations.
- 8. While greater use of sector lending is recommended here in suitable cases, other related techniques should, of course, continue to be used in cases where they are more appropriate. In many of the countries and sectors which have the most urgent and immediate need for help, the conditions for successful sector lending are, in fact, unlikely to be met. In such cases, other lending techniques will remain more useful; in some instances it may be possible to expand the scope of such projects to incorporate more of the objectives of "pure" sector lending.

Warren C. Baum

Vice President, Projects Staff

June 7, 1974

JAKing/HGvanderTak:lic

OFFICE MEMORANDUM

TO: Regional Vice Presidents

DATE: July 30, 1975

FROM: Warren C. Baum, Vice President, Central Projects Staff

SUBJECT: Implementation of Highway Sector Lending

- 1. In June 1975, the President approved the principles of highway sector lending as set forth in the policy paper of June 2, 1975. This was subsequently circulated on June 27, 1975 to the Executive Directors for their information and comment. The paper has now been converted into CPM No. 8.3 (attached).
- 2. The main objective of this policy is to establish specific targets and plans of action for achieving the institutional strength and planning/execution capacity in each Borrowing Country that are required to shift our highway lending to a sector basis.
- Each Region is responsible for reviewing its highway lending program in each country for the possibility of placing future highway operations on a sector lending basis. The issues papers and subsequent appraisal reports for highway lending operations reaching the issues paper stage after September 1, 1975, should address the question whether or not the country is suitable for a highway sector loan. If the answer is negative, the reasons for this should be spelled out and specific plans (including timetables) drawn up for overcoming those deficiencies in the Borrower's capability that stand in the way. These plans should be incorporated in the appraisal report; discussed with the Borrower during project preparation and loan/credit negotiations; reflected in project elements of technical assistance and loan/credit conditions; and followed up during project supervision.

Attachment

Cleared with and cc: Mr. Knapp

WCBaum/EVKJaycox:be

No. 8.3 Page 1 of 8 pages

CENTRAL PROJECTS MEMORANDUM NO. 8.3 HIGHWAY SECTOR LENDING 1

1. CONCEPT OF HIGHWAY SECTOR LENDING

- Bank loans in the highway sector have been for specific projects, that is, individual links in a country's highway network. These links are identified, appraised, and justified on the basis of their high priority. The Bank is well aware that the links it finances form only part of the total program. Substantial efforts have been made to place Bank-financed projects within the context of the total program. Where institutional weaknesses in the sector exist or when technical assistance is needed, these requirements have been incorporated into Bank projects. While much has been done to promote the development of the highway sector using a project-by-project approach, it does have some limitations in that it does not systematically address as a central issue the efficiency of overall highway sector investments and/or the capacity of the borrower to plan and implement sound highway programs. These limitations of the traditional project-by-project approach have been highlighted in two Operations Evaluations Department reports (Bank Operations in Colombia: An Evaluation and Comparative Evaluation of Selected Highway Projects). In order to enhance the effectiveness of Bank highway lending, this paper proposes, where appropriate, that the focus of this lending should shift from project-by-project lending to lending on a sector basis. This is a logical development of current lending techniques and would give the Bank an important additional instrument for achieving broader sector objectives.
- A highway sector loan would be one in which the Bank participates in the financing of an agreed-upon investment program. This would be similar to the present approach to railway financing. The unique feature of this financing is that no major feature of a railroad's financial and investment program is outside the framework of the Bank's loan agreement. Similarly, in the case of highway sector lending, the loan agreement would cover general performance goals related to the investment program and to the use and maintenance of the highway network. In its disbursement features, a highway sector loan would be similar to a DFC operation. Agreement would be reached with the borrower on the conditions under which a component of the program (or sub-project) would be submitted to the Bank for review and disbursement. The actual sub-projects or program components to be financed (e.g., a road from A to B) would not need to be identified at the time of loan submission because the Bank would have an agreement on the total program and confidence in the borrower's capacity to plan and bring forward sound sub-projects in a timely manner.
- 3. Moving to a sector approach to highway lending could not be accomplished immediately in all countries. In many countries, the capacity to develop and execute a program does not yet exist. The development of this

^{1/} This term should really be highway sub-sector lending. The highway sub-sector is an integral part of the transportation sector. In this paper, the term sector lending refers to the highway sub-sector - to accommodate popular usage.

institutional capacity should become a major and specific goal of Bank lending for highways. The Bank should seek to put highway lending on a sector basis as soon as the institutional capacity can be developed. In those countries where this capacity does not exist, the Bank would continue to lend on a project-by-project basis but at the same time an effort would be made to develop the institutional capacity to utilize sector loans. In order to encourage this emphasis, a timetable would be established for reaching this goal in each country. The main purpose of the timetables would be to insure that those conditions which stand in the way of a sector loan for highways receive priority attention from both the Bank and the borrower. Naturally, the Bank would have to be flexible and realistic in setting these timetables and in evaluating the performance of the borrower in meeting them.

II. THE ADVANTAGES OF HIGHWAY SECTOR LENDING

4. The movement from a project-by-project approach to highway lending to the appraisal and financing of a program of investments in this sector offers a number of advantages for both the borrower and the Bank. Some of the advantages to the borrower are:

- (a) It would provide the borrower with a more assured source and amount of funding over a period of years for the agreed-upon highway development program. This does not imply larger total Bank lending for this sector, but rather a firmer commitment over a longer period of time, i.e., less frequent but larger loans.
- (b) It would allow the borrower to formulate and present sub-projects for review and disbursement at a rate in keeping with its institutional capacity; that is, it would avoid the discontinuities and delays inherent in the need to accumulate a sufficiently large number of sub-projects to justify a Bank appraisal mission.
- (c) It would encourage the creation of an efficient organization for the planning, design, procurement, and maintenance of the highway system. It would also help to relieve political pressures for financing politically attractive projects on an ad hoc basis, and thus it would help the borrower to achieve a program more closely related to the development needs of the country.
- (d) It would allow the borrower to have an overall appraisal of an agreed program that could be used as a basis for obtaining financial aid from other than Bank sources.
- (e) By smoothing the flow of financing and construction, and by assuring it sufficiently in advance, the sector loan could be a factor in encouraging the development of a domestic construction capacity.
- 5. From the Bank's point of view, the movement toward highway sector lending in place of project-by-project lending would:

- (a) focus the anaytical effort and dialogue between the Bank and borrower on reaching agreements on broader sector policies and the development of the appropriate institutional capacities for executing a sector program;
- (b) improve the quality of the Bank's lending operations for highways by making it essential to develop the linkages between this sector and the overall economic development of the country. The demand for highway infrastructure derives from the transport demands generated by development. Sector work would thus become an integral part of lending in the sector rather than an adjunct to lending;
- (c) by providing the borrower with an assured source of funds committed in a sufficiently large amount, enable the Bank to exercise greater influence over the country's sector policies, institutional capacity, procedures, and operations; and
 - (d) achieve a more efficient use of staff time by focussing staff efforts on the major problems and broader issues of the sector.

III. ISSUES AND PROBLEMS

- 6. A change to highway sector lending does, however, raise certain issues for both the Bank and the borrower. These issues need to be carefully considered before a decision is made to adopt the highway sector lending approach. Some of these issues are:
 - (a) Sector lending, by its very nature, would mean a greater involvement by the Bank in the investment plans of the country. The highway sector is often an important source of political patronage, and governments may resist the Bank's attempt to exercise a greater influence over this part of their investment program.
 - (b) It is not yet clear whether more or less staff time will be required. This is likely to vary considerably from country to country. It will certainly change the timing and emphasis of staff inputs. In the initial stages, for example, greater staff input may be required in developing a program and in insuring that sub-projects or components of the program submitted for disbursement meet the agreed-upon criteria. Once the Bank and the borrower have sufficient confidence and knowledge of the procedures and conditions for sector lending, future loans would take on more routine aspects which may save a considerable amount of staff time. It should be clear, however, that the basic reason for moving to a sector lending approach is not the saving of staff time, but rather the improvement in the quality of the Bank's operations in this sector.

Aside from the issue of staff inputs, there is also the question of whether or not the Bank can commit sufficient funds in order to maintain the sought-after influence over the program. This will be particularly true in the larger countries where the Bank's contribution, though substantial in absolute terms, is likely to be small compared to total program investments. Thus, if the Bank wishes to maintain the credibility of this approach without increasing the total flow of Bank funds for highways, it may have to commit in one loan the equivalent of a number of project-by-project loans over a substantial future period (up to five years). 1/ This has particular disadvantages with respect to programming the use of IDA funds.

One way of overcoming the problem of large commitments is for the Bank and the borrower to enter into co-financing agreements with other lenders. This would provide the borrower with an assured funding of the investment program and at the same time provide the Bank and other lenders with assurances on the feasibility of the total program, only a part of which they have agreed to finance.

(d) Once a loan has been committed, influence over borrower performance would be exercised through the procedures for accepting sub-projects as eligible for financing (see paragraphs 13-16 below). This has the potential for greater conflict or less influence over borrower performance than the present practice of lending on a projectby-project basis. Under present practices a good deal of leverage is exercised by not appraising the next loan until deficiencies in the borrower's performance have been remedied. Should the Bank feel that the conditions of the sector loan were not being met, it would have to take the positive step of refusing to accept new contracts as eligible for financing.

PROCEDURES FOR HIGHWAY SECTOR LENDING

The Bank would adopt as a long-run goal the placing of all highway lending (except captive roads) 2/ on a sector basis. In order to initiate this process, all applications for future highway loans would be

2/ Captive roads are those roads the justification of which forms an integral part of another project, for example, a rural development project or an

iron ore mine.

Some internal revisions may be necessary in the Bank's own programming and budgeting procedures. For example, under present policies, highway loans of, say, \$25 million every other year may be the normal pattern. However, with the adoption of a sector approach, a commitment of, say, \$75 million may be required over the five-year period. Thus, in the early years of sector lending some increases could be expected in annual commitments to this sector. These problems should not be insurmountable.

examined to see if a sector loan would be appropriate. If the conditions are not suitable for a sector loan, the deficiencies would be identified and an action program for overcoming them complete with timetables would be outlined in reasonable detail and become part of the appraisal report. At such time as a sector loan is suitable, the following procedures would apply.

Appraisal of the Program

a. General Conditions

- 8. The Bank would appraise and reach agreement with the prospective borrower on all major components of its highway investment program. This program would constitute "the project" and if circumstances required substantial changes in the program, these would form the basis for consultation and further agreement with the Bank. The period of time of the program could vary considerably, depending on the amount of detailed preparation undertaken and the ability of the government to express with some degree of certainty its plans for the years ahead. Normally an attempt would be made to have the highway program period coincide with the country's planning period. The focus of the appraisal of the program would be on such factors as:
 - (1) The adequacy of the proposed program in relation to the development needs of the country.
 - (2) The balance of investments in main roads, secondary roads, and feeder roads.
 - (3) The appropriate role of highway investments in relation to other modes of transport.
 - (4) The adequacy of the planned program of maintenance.
 - (5) The adequacy of policies to insure proper utilization of the network road pricing, vehicle weight limitations, safety regulations, etc.
 - (6) The adequacy of the criteria used to appraise the technical and economic feasibility of projects within the program.
- 9. One of the main purposes in moving toward sector lending is to upgrade the overall highway program in terms of its economic merits and the priorities of its constituent parts. It must be recognized that any program may, however, have some elements which will not be justified on strictly economic grounds. The Bank will have to adopt a realistic posture in this regard, provided that the exceptions are relatively minor, while exercising its influence in the desirable direction as vigorously as possible.

b. Institutional and Management Capabilities

10. One of the essential features and advantages of the sector lending approach is its focus on the institutional capacity within a country to manage and execute its investment and maintenance programs in an efficient manner. In appraising a sector loan, the components of the institutional part of the program would have to be examined and a judgment would have to be made on such matters as:

- (1) The organization for handling highway administration, costing, project study and design, economic evaluation, procurement procedures, construction supervision, and road maintenance.
- (2) The arrangements for recruiting and training capable local staff in sufficient strength and for retaining and utilizing consultants to fill short-term needs.
- (3) The related institutional facilities required to support the execution and operation of the program (for example, other government agencies; technical, educational, and vocational training facilities; traffic police, vehicle weights; etc.).
- 11. Many of the countries borrowing from the Bank have institutional deficiencies. The correction of some of these deficiencies would form an important part of any sector loan. Sector lending should not be undertaken, however, where the institutional problems are serious enough to endanger the efficient execution of the proposed program.

c. Financial Planning

12. In order to insure the execution of the program in an efficient manner, it will be necessary to formulate a financing plan covering both domestic and foreign resources. The Bank would examine with the borrower the available domestic contribution to the investment program along with the amounts, terms, and conditions of possible external sources of assistance. The financing plan agreed upon could form the base for both Bank participation and other interested donors. The time period for the financing plan could vary considerably, depending upon the circumstances of the country concerned.

Disbursement Procedures

- 13. Once the Bank has agreed on the overall program and on the proportion of the program it is prepared to finance, disbursements would be made against contracts eligible for financing provided:
 - (a) the sector conditions of the loan agreement, covering policy and institutional measures, are being met; and
 - (b) the sub-projects or lists of goods submitted to the Bank conform to the economic and other criteria agreed during negotiations and to the agreed procurement procedures.

V. TRANSITION PERIOD

17. During the transition period toward sector lending for those borrowers that are not immediately capable of it, the emphasis of project lending will be on institution-building and the related technical assistance and training requirements. As progress is made toward specific goals, certain aspects or parts of the road program may become amenable to treatment on a sector lending basis (e.g., main roads, feeder roads, certain states, maintenance, or a limited percentage of the program on an experimental basis, etc.). The Bank should take advantage of these opportunities. In other words, the lending on a sector basis can be achieved by increments where this appears reasonable.

VI. CONCLUSIONS

Movement toward highway sector lending would be an important step in the direction of improving the efficiency and quality of Bank lending in transportation. It would require that the Bank place greater emphasis on the development of the sector and the relationship between the highway sector and other forms of transportation and the relationship of these to the economic development of the country. It would insure that work in the sector becomes an integral part of Bank operations. It would assist borrowing countries in formulating investment programs and sector policies that fit the needs of the country and in insuring to them secure and timely sources of financing. It would focus Bank attention on institutional requirements where and while these stood in the way of achieving the goal of sector lending. The Bank and the borrower would be concentrating on larger and more fundamental issues and problems than the provision of individual roads. While the approach to sector lending also raises some serious issues, such as how the Bank's leverage can be effectively exercised after the sector loan has been made and how Bank/IDA funds can be programmed over a period of years, on balance there appears to be a considerable weight of advantage in moving as rapidly as feasible toward a generalized policy of highway sector lending.

> Warren C. Baum Vice President, Projects Staff

Transportation and Urban Projects Department July 30, 1975

a. General Criteria Governing Eligibility for Financing

14. The borrower would be eligible to submit to the Bank projects or sub-projects for disbursement provided the borrower is meeting the sector conditions agreed upon with the Bank. The Bank would require the achievement by the borrower of performance goals related to the execution of the program. The following are examples of what might be included in these performance goals:

- (1) Annual physical completion targets for the construction and improvement of different classes of road to appropriate standards.
- (2) Minimum levels of routine and periodic maintenance efforts on different classes of road in the highway network.
- (3) Total proposed annual purchases of equipment and materials for road maintenance.
- (4) Improvements in institutional arrangements in accordance with an agreed-upon timetable.
- (5) Annual targets for expenditures within agreed-upon limits.

15. Whether or not the sector performance goals are being met would be a matter of judgment. In many cases, some of the goals would be met, while in other cases, certain difficulties would be encountered. In the event that the Bank concluded that insufficient progress was being made in reaching the overall goals of the program, it would inform the borrower that it was unwilling to accept any further new contracts for disbursement until it was satisfied that sufficient progress was being made toward these agreed goals.

b. Eligibility of Sub-projects for Financing

The borrower would submit to the Bank individual road investment sub-projects falling within the agreed program as and when they are ready for financing. These sub-projects would have to meet the technical and economic criteria (e.g., minimum acceptable rate of economic return, appropriate design standards) agreed during negotiations and conform to the agreed procurement procedures. The eligibility of specific sub-projects for disbursements and the procedures to be followed would be the same as currently used in Bank highway projects. The procurement procedures to be followed would be the same as would be appropriate in the case of regular project lending. The composition of the sub-projects to be submitted to the Bank would have to be be discussed and agreed upon prior to loan presentation. Thus, where it was felt, for example, that the borrower, in order to avoid international competitive bidding, might be tempted to submit to the Bank only those projects where force account was most appropriate, the Bank would require that all or a specified part of the program submitted to it contain projects which were suited for international tender. 1/

In certain cases after the borrower has had some experience with sector lending and the Bank is confident of the borrower's ability to successfully appraise and execute sub-projects, the review process for these subprojects could become increasingly perfunctory and the sector loan could be more in the nature of financing a time-slice out of the borrower's investment program.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

711/4/20,

OFFICE MEMORANDUM

TO: Files

DATE: July 18, 1977

FROM:

Joe Wood

SUBJECT:

Discussions with Kuhn Loeb

Those attending: from Kuhn Loeb - Messrs. Istel, Stein, Waskolowitz from the Bank - Messrs. McNamara, Cargill, Wood

- 1. Mr. McNamara opened the meeting with a brief summary of his principal concerns about the Bank's financial management. A first concern is that the Bank is inadequately leveraged. The Articles of Agreement constrain the Bank so that it underutilizes its real financial strength. A second concern is how to exploit all alternatives for lowering the Bank's cost of borrowing. The Bank's entry into mediumterm markets in the U. S. and abroad have helped, as has the increase of 2-year Central Bank issues. A third concern is to increase the Bank's penetration of capital markets around the world. One major source of funds not yet tapped is the Eurobond market (in dollars) which the Bank has so far stayed away from because of the substantially higher costs of distribution in that market as compared to New York. Mr. McNamara also referred to the potential for increased penetration of the U. S. market through sales to individual investors and to insurance companies.
- 2. Mr. Istel responded to these remarks by saying that he and his colleagues had taken the current Articles of Agreement as given, but had tried to find ways of increasing the use of the Bank's financial strength within the constraints imposed by the Articles.
- 3. <u>Commodity Bonds</u>. The discussion then turned to the ideas raised in Mr. Robinson's letter to Mr. McNamara (dated June 2, 1977). Mr. McNamara said that he sensed very little interest in commodity bonds, either in this country or in Europe, but he felt there was a major potential role to be played by the Bank in the Gulf/Pakistan type deal. In fact, of all the ideas suggested by Mr. Robinson, this one seemed to Mr. McNamara to be the most promising.
- Sales from Portfolio. Referring to the ideas related to sales from portfolio, Mr. McNamara said that the part of the Bank's portfolio due from Part I borrowers was rapidly declining, so that he did not see a major potential there. He also said the Bank's prohibition against taking exchange risks would rule out the "currency indemnification" idea. On the other hand, he thought the idea of selling loans at a floating rate might well be worth considering. Mr. Istel said that his firm had helped the Ex-Im Bank several years ago sell off parts of its portfolio which were no longer part of its main line of activity, and he thought that there could well be a similar role played vis-a-vis the World Bank. He also saw the sales at floating rates as an indirect way of exploiting the cost advantages of short-term money market rates.

- 5. Co-financing. Mr. McNamara said that the idea of a "rolling quarantee" was an interesting one and new to him. He mentioned, as an alternative, the possibility of entering into an arrangement with commercial banks (either individually or with a group of banks) in which the commercial bank would express its firm intention to do, say, \$200 million a year of co-financing for each of the next few years. The co-financed portions could be picked from the Bank's large pipeline of projects, assuming of course that the financing was acceptable to the borrowing country. Mr. McNamara noted that the World Bank had not been very enterprising in exploring new avenues of co-financing with the private sector. He said the Bank had been mainly preoccupied with building up the volume of its own direct borrowings. He thought an outsider would consider the Bank's approach a conservative one, but this conservatism was to a large extent a prerequisite for the dramatic expansion in the IBRD borrowing which had taken place in recent years.
- 6. The discussion then concluded with a series of general observations about the Bank's financial potential and the constraints it faced. Mr. McNamara referred to the "myths and political constraints" which limited the Bank's capacity to use its full financial potential. The constraint on leverage was but one of these. It might be possible after the next capital increase to relax this constraint somewhat. It might also be possible to move to a less costly maturity distribution of the Bank's borrowings, and to follow a more rational liquidity policy. Mr. McNamara said that the fundamental problem was how to find external finance for a developing country deficit which, by 1985, could approximate \$70 billion. The Bank had devoted a great deal of time and energy to educating governments as to the scale of this problem. The next step was to lay out alternative solutions to the problem
- 7. In summing up Mr. McNamara encouraged Kuhn Loeb to seek out more deals of the Gulf/Pakistan sort. Mr. Istel said that they would try and that in addition they might put to us further proposals for sales from portfolio. After the Kuhn Loeb partners had left, Mr. McNamara asked for a memorandum to be prepared on new financial initiatives (he termed them "unthinkable thoughts") for him to consider after the General Capital Increase had been negotiated.

Mr. McNamara cc: Messrs Knapp, Cargill, Gabriel, Rotberg, and Hornstein

+11/4/19

The diese

OFFICE MEMORANDUM

TO: The President and All Executive Directors DATE: 1 July 1977

FROM: W. S. Ryrie

SUBJECT: THE PATTERN OF WORLD BANK LENDING

We have as yet had no substantive discussion of the issues raised in the President's paper on "The Future of the Bank and its Associated Capital Requirements". Questions closely related to a capital increase must, we have agreed, be considered later. But I think we could usefully discuss some other issues informally in the next few weeks.

- The pattern of Bank lending, including sectoral priorities and types of projects, is one such area. I think it would be useful to review our sectoral priorities. But in this note I am concerned with the question of types of projects. In particular I should like to raise the question whether the trend towards smaller discrete projects on average is desirable, and whether the Bank should be thinking of moving in the opposite direction by concentrating more on sectoral projects, each of which would cover a substantial part of a borrowing country's economy. These questions were touched upon during the Board discussion of the Financial and Operating Programme and Administrative Budgets for FY 1978.
- 3. The following are some relevant facts:
 - (1) The ratio of expenditure on administration for IBRD and IDA to new commitments in real terms was as follows:

(2) The average size of lending operations was as follows:

(FY 77 \$000)

- (3) The figure for average manweeks per project supervised has risen from 10.6 in FY73 (the first year for which such figures are available) to an estimated 12.7 in FY 78.
- During the Board meeting on 21 June, the President pointed out some of the reasons for the trend towards smaller projects, and drew attention to Table 19 in the Annex of Tables to R77-135. The Bank has been moving towards more specialised staff-intensive discrete projects and many projects now e.g. environmental considerations and effects on income distribution. Then no suggestion that the staff is not being used efficiently or that these additional tasks are not being performed at a high level of expertise. No / doubt

 cc: Mr. Burke Knapp
 Mr. Baum
 Mr. Damry e.g. environmental considerations and effects on income distribution. There is

doubt they are. But I think we should ask ourselves the question whether this is the only way in which the Bank can contribute to the development of member countries, or whether we ought not to be looking for alternative ways of channeling Bank funds and expertise to these countries. I make this suggestion for two reasons; first, I think that it might provide opportunities for Bank expertise and help to be made available over a wider field than is possible through narrower projects, and, secondly, I feel that in time it could produce administrative savings for both the borrowing countries and the Bank.

5. I am not suggesting that the Bank should give up the traditional type of

- 5. I am not suggesting that the Bank should give up the traditional type of project at which it is so good. This type of work is extremely valuable, partly as a type of technical assistance, setting high standards and developing good practice in project appraisal and control. But there may be a case for some change of emphasis
- The Bank's Articles require us to provide loans for "projects" except in exceptional circumstances, and the Bank has always been highly skilled at the planning, appraisal and supervision of projects in a rather narrowly defined sense. In the abstract, I can see an argument for a much wider approach, e.g. through "development programme loans". The Bank would assist countries in the preparation of national development programmes and contribute a percentage of the overall costs over a period of years. It would, of course, review and monitor progress as time went on. But this would be contrary to the Articles as they stand, and might be undesirable in putting the World Bank more into a role of supervision of national policies than many countries would be prepared to accept. But perhaps a modest move in this direction, consistent with the Articles, would be desirable. In practice, when appraising a particular project, the staff normally make an overall appraisal of the sector involved, e.g. a power station project has to be seen against the background of the power sector. What I have in mind is that in cases where we can be satisfied, through such a sector appraisal, that the sector programme is balanced and that the borrowing country has the administrative ability to carry it through (if necessary with appropriate technical assistance from the Bank or other donors), we should be ready to provide a loan or credit in support of the overall programme instead of selecting discrete projects within it.
- 7. This would not, of course, be an entirely new departure for the Bank. Some of our present operations are related to fairly wide sectors, for example the loans for agricultural extension work in Indian-States or a number of DFC loans. But I think that generally this approach has been adopted in situations in which it is difficult to identify narrower projects for Bank financing and perhaps for that reason. What I am suggesting is a deliberate decision by the Bank actively to seek out other situations in which the technique of sector or sub-sector lending could be applied. This may be useful both in countries with advanced planning capability, and those where integrated planning is not so well developed.
- 8. One argument for the narrower type of project is that it affords the Bank better financial control. This is a matter of balance. Financial control is

not an end in itself. If some measure of precise control is sacrificed for a greater influence over policies in a wider field, there may be a net gain in terms of the Bank's objectives. Admittedly, the traditional type of project, naturally satisfying to the professional staff of the World Bank. Factors like this may almost unconsciously influence the choice of project, but clearly they

- staff. The staff has grown less rapidly than the number of lending operations over the last ten years, but the size of the average lending operation has been declining. It is already almost 4500 in total, and the paper on the Future Role
- Another reason for moving in this direction is the size of the Bank's staff. The staff has grown less rapidly than the number of lending operation over the last ten years, but the size of the average lending operation has bee declining. It is already almost 4500 in total, and the paper on the Future Ro of the Bank envisages (page 40) that it will rise to about 7000 over the next 10 years, i.e. maintaining about the same ratio to lending operations as in the recent past. Should this ratio be accepted and continued?

 10. As the paper on the Future Role of the Bank points or so is not enormous in comparison with many that if the Bank grows much above its will have to be considered view there would be Bank staff or so is not enormous in comparison with many other organisations, but I suspect that if the Bank grows much above its present number, new management techniques view there would be advantage in avoiding growth to such a size. The larger the which will be more impersonal. In any case, the developing countries need the same kind of people as the Bank employs, and the Bank sometimes competes directly with developing countries for them.
 - I should like to suggest that we discuss these questions informally some time this month.

	WOR	SLU BANK G	mour: II	(\$ milli	ons, fisc			nauuun F1	130) -				100	1											
	Thru 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1931	1982	1983	1964-68	1969-73	1974-78	1979-8
Tash & Securities Receivable from Delayed Deliveries Receivable from Loans - Part II $\underline{b}/$ - Part II - IFC	1738 5 1426 3294	1589 1491 3712	1595 18 1689 4291	1417 1712 4828	1305 234 1774 5258 100	1167 234 1712 5774 100	1707 141 1630 6907 100	2049 43 1357 8322 200	2549 17 1378 9754 200	3218 11 1433 11651 260	3734 43 1491 14185 297	3824 1427 16673 400	5110 120 1324 20578 442	6316 797 1220 24394 502 26116	7998 1097 29378 510	8239 980 34712 495	8975 858 40657 481	9372 732 47347 536	9517 615 54650 616	9937 541 62482 828	10500 442 70929 1074	1167 234 1712 5774 100	3734 43 1491 14185 297	980 34712 495	10500 442 70929 1074
- Total Receivable from Subscribed Capital Land & Buildings Net of Deprec. Res. Accruals, Prepayments & Other Assets	4720 436 21 	5203 437 21 _79	5980 465 21 95	509 23 103	100 7132 502 24 118	100 7586 479 29 125	100 8637 462 34 163	200 9879 432 37 198	200 11332 458 37 209	260 13344 492 36 281	297 15973 551 58 460	400 18500 484 59 447	22344 461 58 513	26116 411 56 752	510 30985 502 56 745	36187 561 55 737	41996 621 55 810	536 48615 700 55 886	55881 700 55 965	62851 700 55 1060	72445 1166 55 1155	7586 479 29 125	297 15973 551 58 460	495 36187 561 55 737	1074 72445 1166 55 1155
TOTAL ASSETS	6999	7329	8174	8592	9315	9620	11144	12638	14602	17382	20819	23314	28606	34448	40286	45779	52457	59628	67119	75603	85321	9620	20819	45779	85321
Due to IDA S/ Undisbursed Loans d/ Funded Debt g/ Hiscellaneous Liabilities Capital & Special Reserves Reserves - Retained Earnings S/ - Paid-in Capital f/ - Total	1535 2524 46 255 558 2081 2894	1731 2492 42 288 656 2120 3064	2149 2742 43 289 743 2168 3200	79 2314 2806 49 290 807 2247 3344	92 2381 3309 53 290 902 2288 3480	2371 3524 59 291 1038 2294 3623	92 3007 4222 89 292 1135 2307 3734	163 3905 4612 100 292 1250 2316 3858	240 4741 5441 137 292 1364 2387 4043	289 5480 6962 211 292 1487 2661 4440	342 6279 8925 297 292 1644 3040 4976	358 7978 9650 297 292 1696 3043 5031	454 10148 12407 338 293 1885 3081 5249	558 12577 15444 647 293 1843 3086 5222	15389 18462 468 293 1938 3087 5318	731 18049 20814 455 293 2073 3364 5730	780 20595 24365 519 293 2263 3642 6198	754 23393 28140 588 293 2520 3940 6753	740 26280 32383 663 293 2820 3940 7053	779 29556 37117 749 293 3169 3940 7402	824 33033 41627 829 293 3609 5106 9008	43 2371 3524 59 291 1038 2294 3623	342 6279 8925 297 292 1644 3040 4976	731 18049 20814 455 293 2073 3364 5730	824 33033 41627 829 293 3609 5106 9008
TOTAL LIABILITES & CAPITAL Total Uncalled Capital 1/	6999 18656	7329 19066	19501	<u>8592</u> 20184	<u>9315</u> 20565	<u>9620</u> 20648	20733	20843	21484	23946	<u>20819</u> 27357	23314 27388	28606 27729	<u>34448</u> 27775	<u>40286</u> 27783	<u>45779</u> 30276	<u>52457</u> 32778	<u>59628</u> 35460	67119 35460	75603 35460	85321 45954	<u>9620</u> 20648	20819 27357	<u>45779</u> 30276	85321 45954
Income from - Securities - Loans: Part 9/ Part 1 Total	320 685 589 1274	62 64 125 189	62 68 137 205	63 70 157 227	72 76 180 256	66 84 200 284	91 224 315	149 92 253 345	187 72 311 383	187 74 376 452	215 74 463 537	267 87 567 654	383 89 677 766	85 811 896	535 89 982 1071	598 87 1190 1277	654 86 1463 1549	697 85 1823 1908	717 85 2212 2297 10	740 88 2651 2739 10	777 90 3153 3243	325 362 799 1161 15	826 403 1629 2032 38	2208 437 4227 4664 44	3585 434 11302 11736 50
Other Income Less: Administrative Expenses Interest on Borrowings Financial Expenses	127 631 	19	22 106 2	30 116 3	31 129 2	34 151 	41 195 3	45 242 4	56 305 4	66 392 4	79 487 6	91 614 8	110 765 8	977 10	142 1250 15	160 1472 18	174 1730 19	10 197 2040 21	224 2376 24	259 2752 29	295 3162 34	15 136 602 11	287 1621 21	625 5078 59	1149 12090 127
NET INCOME Net Loss (-) or Gain (+) on Deval.	<u>821</u> <u>-8</u>	131	138		170	<u>170</u> <u>-23</u>	172	<u>214</u> +2	212 +2	183 +50	186 +81	<u>216</u> <u>-54</u>	275 +14	<u>220</u> <u>-151</u>	208 -13	235	290	357	400	449	539	<u>752</u> <u>-26</u>	967 +135	1154 -204	2005
IDA Securities Unrestricted Subscriptions h/ Receivable from 1880 G/ Receivable from Credits I/	75.0 338.5 495.2	90.0 352.4 778.4	44.3 340.3 39.6 1085.5	35.3 376.0 78.9 1365.2	34.4 358.0 92.3 1694.2	52.2 345.7 42.7 1788.4	78.0 324.3 92.2 2170.2	171.6 725.1 162.6 2772.9	243.4 871.6 239.5 3340.1	258.8 1153.1 288.6 4518.9	319.3 2061.4 341.9 6197.9	506.1 2415.4 358.0 7249.8	315.4 2523.8 454.4 8794.7	213.7 2430.6 558.4 10423.9	128 2582 649 11707	82 4295 731 13987	54 5786 780 16555	22 6629 754 19517	27 7238 740 22573	53 7584 779 25719	103 7682 824 28951	52 346 43 1788	319 2062 342 6198	82 4295 731 13987	103 7682 824 28951
Restricted Subscr. & Other Assets	122.2	176.4	220.1	222.8	222.7	233.5	234.6	229.2	233.1	260.3	463.4	336.4 10865.7	303.6	370.3	361	361	361	361	361	361	_361	233	463	361	361
TOTAL ASSETS Undisbursed Credits d/	426.8	585.9	670.8	683.6	670.5	<u>2462.5</u> <u>445.9</u>	572.0	1031.5	1363.7	2096.1	2989.1	3336.6	3878.1	4273.4	15427 4218	<u>19456</u> 5205	6301	7439	<u>30939</u> 8286	<u>34496</u> 9025	<u>37921</u> 9621	<u>2462</u> 446	9384 2989	<u>19456</u> 5205	<u>37921</u> 9621
Loans from Switzerland Transfers from IBRD c/ Accumulated Net Income Paid Subscriptions & Supplements	2.4 601.7	4.1 807.2	50.0 6.7 1102.3	125.0 9.8 1259.8	200.0 14.4 1516.7	12.1 210.0 21.4 1773.1	12.1 285.0 31.9 1998.3	385.0 38.6 2594.3	12.7 485.0 45.7 3020.6	13.8 595.0 64.2 3710.6	62.2 703.3 69.9 5559.4	60.7 810.8 81.8 6575.8	72.7 907.5 89.8 7443.8	73.6 1011.6 83.4 8554.9	74 1102 76 9957	74 1192 60 12925	74 1282 33 15846	74 1372 5 18393	74 1462 -22 21139	73 1552 -40 23886	73 1642 48 26633	12 210 21 1773	703 70 5560	74 1192 60 12925	73 1642 -48 26633
TOTAL LIABILITIES	1030.9	1397.2	1729.8	2078.2	2401.6	2462.5	2899.3	4061.5	4927.7	6479.7	9383.9	10865.7	12391.9	13996.9	15427	19456	23536	27283	30939	34496	37921	2462	9384	19456	37921
Income Less: Administrative Expenses	3.2	2.6	2.9	3.4	8.8	12.2	14.6	15.8	19.3	28.1	35.6	57.5 43.2	67.9 47.6	60.6	65 73	70 86	77 104	87 115	99 126	116	137	37 17	128 99	321 313	516 624
Net Loss (-) or Gain (+) on Deval. NET INCOME	2.5	1.7	2.6	3.1	4.6	7.0	10.4	6.7	7.1	+19.5 18.5	+.9 5.6	<u>-2.5</u> <u>11.8</u>	8.0	-6.4	_+1				-			1	+20	-18	-108
IFC		-			-	-	-	-	-	-		-		-	=7	-16	27		27_	-18	=	19	49	-10	-108
Balance Sheet Cash & Securities Investments - Loans - Equity	71.5 46.2 13.2	66.4 45.9 21.4	63.5 49.4 24.2	57.0 60.7 35.0	46.5 81.8 52.0	31.7 105.1 55.7	30.8 127.0 72.4	10.6 180.7 98.5	11.1 243.9 106.0	2.1 301.3 116.3	2.6 345.9 119.3	3.0 422.4 127.9	9.1 517.2 141.8	18.4 626.5 152.4	743.	24.3 876.6 193.9	4.0 1021.0 246.4	4.0 1193.5 310.2	4.0 1381.7 390.7	4.0 1586.0 488.2	4.0 1808.3 603.7	31.7 105.1 55.7	2.6 345.9 119.3	24.3 876.6 193.9	4.0 1808.3 603.7
Less: Reserve Against Losses J/ Net Accruals and Other Assets	1.5	3.0	1.8	1.3	1.7	7.8	9.6 5.2	12.9	6.6	17.3	6.1	4.3	4.4	30.7	36.7	6.0	51.4	62.0	75.9	92.9	6.0	7.8	6.1	43.5	6.0
TOTAL ASSETS Undisbursed Commitments	131.3	132.9	135.4	149.4	176.0	186.9	225.8	282.6	351.8	408.9	457.5	537.6	648.0	769.9	880.6	1057.3	1226.0	1451.7	1706.5	1991.3	2308.7	186.9	457.5	1057.3	2308.7
- Loans - Equity Undisbursed Loans and Equity	10.6 7.0 17.6	11.4 5.3 16.7	12.5 4.3 16.8	17.5 8.7 26.2	32.6 14.8 47.4	41.8 10.6 52.4	62.1 18.1 80.2	85.3 26.9 112.2	110.4 22.1 132.5	26.7 163.8	156.2 25.3 181.5	160.2 26.4 186.6	169.4 27.7 197.1	225.5 30.6 256.1	220.2 29.1 249.3	255.4 34.7 290.1	278.8 60.9 339.7	324.6 82.8 407.4	375.6 104.4 480.0	425.1 128.1 553.2	474.0 153.6 627.6	41.8 10.6 52.4	156.2 25.3 181.5	255.4 34.7 290.1	474.0 153.6 627.6
Loans from IBRD and Others Less: Undrawn Loans Withdrawn Loans Capital and General Reserve k/	113.7	116,2	118.6	123.2	100.0 100.0 0.0 128.6	100.0 100.0 0.0 134.5	100.0 100.0 0.0 145.6	200.0 182.5 17.5 152.9	205.0 142.1 62.9 156.4	265.0 182.3 82.7 162.4	302.4 193.0 109.4 166.6	405.7 227.2 178.5 172.5	448.4 175.5 272.9 178.0	506.9 179.8 327.1 186.7	550.3 114.4 435.9 195.4	535.6 73.2 462.4 304.8	517.3 52.4 464.9 421.4	574.3 74.7 499.6 544.7	653.7 100.4 553.3 673.2	866.2 235.4 630.8 807.3	1110.2 276.1 834.1 847.0	100.0 100.0 0.0 134.5	302.4 193.0 109.4 166.6	535.6 73.2 462.4 304.8	276.1 834.1 847.0
TOTAL LIABILITIES AND CAPITAL	131.3	132.9	135.4	149.4	176.0	186.9	225.8	282.6	351.8	408.9	457.5	537.6	648.0	769.9	880.6	1057.3	1226.0	1451.7	1706.5	1991.3	2308.7	186.9	457.5	1057.3	2308.7
Income Statement Operating Income Less: Administrative Expenses Charges on IBRD Loons Income Before Investment Gains & Losses	27.3 11.2 16.1	2.5	5.7 2.7	7.5 3.0 4.5	9.2 3.2 6.0	10.1 3.5 .4	12.0 4.1 .4 7.5	15.4 5.4 <u>.8</u> 9.2	14.7 6.5 3.8 4.4	18.3 7.1 6.0 5.2	19.6 7.5 7.8 4.3	26.2 9.2 11.5 5.5	34.2 10.4 16.9 6.9	43.3 11.4 22.1 9.8	53.9 13.3 27.9 12.7	67.2 16.6 34.4 16.2	78.9 20.1 35.4 23.4	92.6 23.3 37.8 31.5	108.1 27.2 42.2 38.7	125.8 31.0 49.2 45.6	145.5 35.3 62.6 47.6	37.9 14.9 0.4 22.6	80.0 30.6 18.8 30.6	224.8 60.9 112.8 51.1 19.3	550.9 136.9 227.2 186.8
Realized Capital Gains Provision for Losses	1.5	1.6		1.1	1.4	2.3	2.0	3.4	1.8	1.7	2.0	3.6	6.6	6.4	1.9	4.0 6.8	5.1 7.9	6.4 10.6	38.7 7.7 13.9	9.5 17.0	12.5 20.4	7.3	7.7	29.4	69.8
NET INCOME	15.5	1.7	2.4	4.2	4.9	4.4	5.9	6.9	3.3	6.0	4.2	5.9	5.4	7.7	8.6	13.4	20.6	27.3	32.5	38.1	39.7	17.6	26.3	41.0	158.2
MEMORANDUM ITEMS. Number of Operations. - IBRO - IDA - Total	348 35 383	37 17 54 18	39 18 57	37 12 49	46 17 63	44 16 60	82 29 111	69 50 119	78 51 129	72 68 140	73 75 148	105 69 174	122 68 190	141 - 73 - 214	152 67 219	151 89 240	160 95 255	169 102 271	177 99 276	184 96 280	192 92 284	203 80 283	374 273 647	671 366 1037	882 484 1366
Amount of Commitments - IRC m/ - IRAD to Countries - IDA Credits - IFC Commitments g/ - Total in Current \$	68 7122 495 88	810 283	1023	19 839	777 353 49	10 847 107	20 1399 385 93 1877	26 1580 606 112	1921	19 1966 1000 116 3082	25 2051 1357 147 3555	32 3218 1095	31 4320 1576 212 6108	33 4977 1655 245 6877	5700 1300	37 6100 2300	6800 2600	7700 3000 450	8600 3100 530	9600 3200	57 10700 3300 685 14685	74 4296 1336 183 5815 14140	113 8917 3932 569 13418 21650	166 24315 7926 1210 33451 35299	253 43400 15200 2650 61250 46134
- Total in Current \$ - Total in FY77 Comm Commitment Deflator (FY77 = 100) No. of IBRD/IDA Proj. Under Supervision g/ Disbursements - IBRD Loans g/	525 3242	20 1113 2854 39.0 249 461	309 26 1358 3421 39.7 280 506 222	35 1158 2845 40.7 305 544 267	1179 2787 42.3 330 582	51 1005 2233 45.0 350 600	3831 49.0 383 645 256	2298 4240 54.2 468 740 143	101 2606 4300 60.6 588 912 235	4552 67.7 627 1181	2051 1357 147 3555 4727 75.2 705 1175	203 4516 5541 81.5 770 1530	7021 87.0 946 1954 1025	7379 93.2 1112 2470	250 7250 7250 100.0 1187 2700	300 8700 8108 107.3 1289 3400	375 9775 8507 114.9 1383 4238	9065 123.0 1495 4923	9293 131.6 1600 5739	610 13410 9524 140.8 1705 6490	9745 150.7 1810 7354	350 2693	705 4653	1289 12054	1810 28744
- IDA Credits - IFC Commitments - Total In Current \$ Net Disbursements s/ - IBRO Loans	68 61 3371 2488	124 16 601 303 124 427 153	16 744 331	267 22 833 347	342 25 949 356 342 698 155	319 33 952 367 319 686 146	256 33 934 374	968 439	235 72 1219 586	261 61 1503 811	493 88 1756 733 489 1222 271 461 732 1121 65,3	711 162 2403 1009	184 3163 1460	200 3921 1897	1360 254 4314 2042	1313 267 4980 2643	1494 321 6053 3383	1352 365 7140 3940 1824 5764 2103	2243 438 8420 4483	2451 513 9454 4779 2407 7186 2126	2694 591 10639 5035	1275 112 4080 1704 1275 2979 786 1256 2042 4332	1388 339 6380 2943 1382 4325 1269	5660 1067 18781 9051 5592	10734 2228 41706 21620 10548
- IDA Credits - Total in Current \$ Net Transfer t/ - IBRD Loans	68 2556 1804	124 427 153	<u>553</u> 167	267 614 165	698 155	686 146	630 129	582 160	235 821 268	259 1070 441	1222 271	704 1713 415	1014 2474 813	1238 3135 1070	1343 3385 1045	1293 3936 1446	1472 4855 1913	5764 2103	2209 6692 2269	7186 2126	2636 7671 1870	2979 786	4325 1269	5592 14643 4789 5378	10548 32168 10281 10052
- IDA Credits - Total in Current \$ - Total in FY77 \$ u/ Disbursement Deflator (FY7 = 100) Borrowings by IBRO (new issues)	3987 1461	276 600 46.0	220 387 834 46.4 598 348 250	22 833 347 267 614 165 264 429 911 47.1 288 224	1029 47.8 729	311 457 958 47.7 735 514 221	33 934 374 256 630 129 246 375 778 48.2 1224 526	85 968 439 143 582 160 131 291 572 50.9 735 436 299	72 1219 586 235 821 268 221 489 902 54.2 1368 548	244 685 1138 60.2 1744 608	1723	677 1092 1415 77.2 1853 863	981 1794 1987 90.3 3510 1027	1196 2266 2418 93.7 3808 Y 1278 2530	1292 2337 2337 100.0 1460	1232 2678 2500 107.1 3800 1448	1401 3314 2872 115.4 5200 1649	1740 3843 3097 124.1 5900	2112 4381 3299 132.8 6600 2357	2294 4420 3110 142.1 7400	2505 4375 2878 152.0 7300 2789	1256 2042 4332 2450 1:444 1006	6794	5378 10167 10657 17871 6076	10052 20333 15256 32400 11586 20814
Less: Debt Retirement Net Borrowing by IBRD	2526 429	132 -32 463	250	224 64 664	226 503 731	763	526 698 957	299	548 820	608 1136	768 955 1657	863 990 1754	1027 2483	2024	2170	2352	1649 3551 2393	2125 3775 2466	2357 4243 2540	2666 4734 2616	2789 4511 2695	763	1657	2321	2695
Staff End Year M'- Professional - Non-Professional M' - Total - % increase	505 934	553 1016 8.8	603 1132 11.4	728 1392 23.0	805 1536 10.3	858 1621 5.5	926 1883 16.2	1071 2245 19.2	1249 2571 14.5	1446 2977 15.8	1567 3224 8.3	1695 3449 7.0	1820 3703 7.4	1968 3992 7.8	2072 4242 6.3	2170 4491 5.9	2238 4631 3,1	2304 4770 3.0	2373 4913 3.0	2444 5060 3.0	2517 5212 3.0	858 1621 11.7	1567 3224 14.7	2170 4491 6.9	2517 5212 3.0

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as Projections assumed a summer and a second a/ Projections assume:

- Real growth in 18RD lending of 5% per year.

- A sixth 10A Replenishment at the same real level as the Fifth Replenishment.

- A long-term rate of inflation of 7% (see footnote u below).

- A 1355 billion + 18RD gamerel cepter increase subscribed in FV83-85, 10% of which is paid-in-with usable paid-in-cepter increasing by \$2.1 -83 auth washe poid in costed furces in 9 21.

Lillion.

A lending rate of 8.58% in FY77. 8.5% in FY78
and 8.75% in FY79-33.

Borrowing costs of 7.9% in FY77, 8.0% in FY78
and 8.25% in FY79-83. and 8.7% in FY79-03.

Borrowing costs of 7.9% in FY77, 8.0% in FY78
and 8.25% in FY79-83.

Rates of return on securities investments of 7.3%
in FY77, 7.15% in FY78 and 7.60% in FY79-83.

Liquidity equal to at least 40% of the next 3 years borrowing requirements.

Terms of lending in FY77-78 of 3.8 years' grace, 18 years' final maturity and equal semi-annual repayments of principal; terms in FY79-83 of 4.3 years' grace, 20 years' final maturity and annuity-type repayments of principal; terms in FY79-83 of 4.3 years' grace, 20 years' final maturity and annuity-type repayments of principal;

Committee total terms in FY79-83 of 4.3 years' grace, 20 years' final maturity and annuity-type repayments of principal;

Committee total terms in FY79-83 of 4.3 years' grace, 20 years' final maturity and annuity-type repayments of principal.

Annual transfers to 18A out of 18R0 income of \$100 million (including grants for agricultural research and onchocerclasis control) from FY78 omeards.

Anounts receivable from loans include undisbursed portions. Loans guaranteed by Part i countries are included in the Part i category.

Transfers to 10A out of 18R0 net income have been charged to 18R0 retained earnings, and added to 18A's resources in the year of authorization, i.e., the year following that in which the income was earned.

Undisbursed amounts include both effective and non-effective loans of Fredits, excluding amounts sold or egreed to be sold.

18R0 funded debt includes delayed deliveries.

The selective incrasses in 18R0 subscriptions approved in 1977 are expected to bring total 18R0 capital subscribed but not called to \$55,3 billion (on the present valuation basis). If this account 329-72 billion would be carl rabble force dawn-boyed Countries and a further 31.0 billion from capital support force and capital subscribed but not called to \$55,3 billion (on the present valuation basis). exporting-countries.

2 Income from loans guaranteed by Part I countries and from 1880 loans to IFC is included in the Part I category.

3 Income from loans to IFC is included in the Part I category.

4 IOA Unrestricted Subscriptions are contributions held in non-interest bearing notes and bank deposits. These amounts are immediately available for disbursements, but may not be invested in securities.

4 Anounts Receivable from Credits include undisbursed portions.

5 Investment losses charged to Reserve Against Losses total \$6.2 million through FY76.

5 Assumes Increase of \$480 million in IFC capitals in five equal installments in FY76-82.

6 ISRO/IOA number of operations is shown excluding loans to IFC and treating operations involving more than one loan agreement or both a loan and a credit as sleply one ISRO operation.

5 IFC commitments exclude amounts of less than \$100,000 representing overruns, exercise of stock options, plot projects, and promotional activities.

5 ISRO loans to IFC are excluded (\$100 million in each of FY67 and FY70, \$50 million in FY75, \$10 million in FY76, \$20 million in FY75, \$10 million in FY76, \$20 million in FY75, \$10 million in FY76, \$20 million in FY77 and \$722 million in the period FY78-83.

5 Commitments signed, before cancellation, and including original participations.

6 John tements signed, before cancellation, and including original participations.

7 He commitment deflator is derived from the disbursement deflator fis derived from the disbursement of principal by current borrowers tess repayments of principal by current borrowers to ISRO, IDA and purchasers of loans and credits.

8 He tolsbursement sess ions and credit charges paid by current borrowers to ISRO, IDA and purchasers of loans and credits.

9 He disbursement deflator translates disbursements into constant FY77 purchasing power. The deflator is based on export price indices of machinery and equipment from major OCED countries together with a component for freight costs. Present expectations are that future inf exporting countries.

Income from loans guaranteed by Part I countries and
from IBRD loans to IFC is included in the Part I

projections, the annual changes in the index assumed for future years are as follows:

FY Annual Rate of Inflations

PT	Annual Kate or	Intl
1978	7.1%	
1979	7.8%	
1980	7.5%	
1981	7.0%	
1982	7.0%	
1983	7.0%	
7000	the state of the s	

Includes \$800 million in advance borrowings.

Does not include positions for reimbursable technical

stance programs. not include locally-hired staff in field offices.

Y Man of The man

P & B 5/23/77

International Bank for Reconstruction and Development
International Development Association
International Finance Corporation

International Finance Corporation

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SecM77-468

FROM: The President

June 1, 1977

INTERIM FINANCIAL AND OPERATING PLAN

Attached is a table summarizing the principal features of the "Interim Financial and Operating Plan" which I am using as a basis for day-to-day decisions. The figures for FY78 and FY79 are identical to those presented to the Executive Directors in the FY78 budget document. The figures for FY80 through FY83 have been developed on the basis of what I consider to be reasonable assumptions, but assumptions which have neither been considered in detail nor approved by the Executive Directors. In distributing the "Plan" to the Executive Directors at this time, I am not seeking formal or informal approval of it, but wish simply to inform the Directors of the medium-term framework which is presently guiding management decisions.

Robert S. McNamara

Distribution:

Executive Directors and Alternates Senior Vice President, Operations President's Council

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	Thru	1071	1065	1066	1967	1969	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1964-68	1969-73	1974-78	1979-83
IBRD	1963	1964	1965	1966	1967	1968	1969	2049	2549	3218	3734	3824	5110	6316	7998	8239	8975	9372	9517	9937	10500	1167	3734	8239	10500
Cash & Securities Receivable from Delayed Deliveries Receivable from Loans - Part 1 b/	1738 5 1426 3294	1589 1491 3712	1595 18 1689 4291	1417 1712 4828	234 1774 5258	234 1712 5774	141 1630 6907	43 1357 8322	17 1378 9754 200	1433 11651	43 1491 14185 297	1427 16673 430	120 1324 20578 442	797 1220 24394	1097 29378	980 34712 495	858 40657 481	732 47347	615 54650 616	541 62482 828	442 70929 1074	234 1712 5774 100	1491 14185 297	980 34712 495	442 70929
- IFC - Total Receivable from Subscribed Capital Land & Buildings Net of Deprec. Res.	4720 436 21	5203 437 21	5980 465 21	509 23	7132 502 24 118	7586 479 29	8637 462 34 163	200 9879 432 37 198	11332 458 37 209	260 13344 492 36 281	15973 551 58 460	18500 484 59 447	22344 461 58 513	502 26116 411 56 752	510 30985 502 56 745	36187 561 55 737	41996 621 55 810	536 48615 700 55 886	55881 700 55 965	62851 700 55 1060	72445 1166 55 1155	7586 479 29 125	15973 551 58 460	36187 561 55 737	1074 72445 1166 55 1155
Accruals, Prepayments & Other Assets TOTAL ASSETS	79 6999	79 7329	_95 8174	103 8592	9315	9620	11144	12638	14602	17382	20819	23314	28606	34448	40286	457.79	52457	59628	67119	75603	85321	9620	20819	45779	85321
Due to IDA ⊆/ Undisbursed Loans ₫/ Funded Debt <u>e</u> /	1535 2524 46	1731 2492 42	2149 2742 43	79 2314 2806 49	92 2381 3309 53	43 2371 3524 59	92 3007 4222 89	163 3905 4612 100	240 4741 5441 137	289 5480 6962 211	342 6279 8925 297	358 7978 9650 297	454 10148 12407 338	558 12577 15444 647	649 15389 18462 468	731 18049 20314 455	780 20595 24365 519	754 23393 28143 588	740 26280 32383 663	779 29556 37117 749	824 33033 41627 829	43 2371 3524 59	342 6279 8925 297	731 18049 20814 455	824 33033 41627 829
Hiscellaneous Liabilities Capital E - Special Reserves Reserves - Retained Earnings ≦/ - Paid-in Capital ƒ/ - Total	255 558 2081 2894	288 656 2120 3064	289 743 2168 3200	290 807 2247 3344	290 902 2288 3/480	291 1038 2294 3623	292 1135 2307 3734	292 1250 2316 3858	292 1364 2387 4043	292 1487 2661 4440	292 1644 3040 4976	1696 3043 5031	293 1885 3081 5249	293 1843 3086 5222	293 1938 3087 5318	293 2073 3364 5730	293 2263 3642 6198	293 2520 3940 6753	293 2820 3940 7053	293 3169 3940 7402	293 3609 5106 9008	291 1038 2294 3623	292 1644 3040 4976	293 2073 3364 5730	293 3609 5106 9008
TOTAL LIABILITES & CAPITAL	6999	7329	8174	8592	9315	9620	11144	12633	14602	17382	20819	23314	28606	34448	40236	45779	52457	59628	67119	75603	85321	9620	20819	45779	85321
Total Uncalled Capital 1	18656	19066	19501	20184	20565	20648	20733	20843	21484	23946	27357	27388 267	27729 383	27775 425	27783 535	30276 598	32778 654	35460 697	35460 717	35460 740	45954	20648 325	27357 826	30276 2208	45954 3585
Income from - Securities - Loans: Part 9/ Part Total	685 589 1274	64 125 139	68 137 205	70 157 227 2	76 180 256 4	84 200 284 7	91 224 315 8	92 253 345 11	72 311 383 7	74 378 452 6	74 463 537 6	87 567 654 8	89 677 766 9	85 811 896 8	982 1071 9	87 1190 1277 10	86 1463 1549	85 1823 1908 10	85 2212 2297 10	88 2651 2739 10	90 3153 321,3	362 799 1161 15	403 1629 2032 38	437 4227 4664 144	11302 11736 50
ess: Administrative Expenses Interest on Borrowings Financial Expenses	127 631 23	19 100 2	106 2	30 116 3	31 129 2	151 	195 3	242 4	56 305 4	392 4	487 6	91 614 8	765 8	977 10	142 1250 15	160 1472 13	174 1730 19	197 2040 21	224 2376 24	259 2752 29	295 3162 34	136 602 11	1621 21	625 5078 59	1145 12090 127
NET INCOME Net Loss (-) or Gain (+) on Deval.	<u>821</u> -8	131	138	<u>-3</u>	170		172	<u>214</u> +2	<u>212</u> +2	183 +50	<u>186</u> +81	<u>216</u> <u>-54</u>	+14	-151	<u>-13</u>	235	290	_357	400	449	539	<u>752</u> <u>-26</u>	967 +135	-204	2005
IDA							2.0												40						
iccurities Inrestricted Subscriptions <u>h</u> / Receivable from IBRD <u>c/</u> Receivable from Credits <u>l</u> /	75.0 338.5 495.2	90.0 352.4 778.4	340.3 39.6 1085.5	35.3 376.0 78.9 1365.2	34.4 358.0 92.3 1694.2	52.2 345.7 42.7 1788.4	78.0 324.3 92.2 2170.2 234.6	171.6 725.1 162.6 2772.9 229.2	243.4 871.6 239.5 3340.1 233.1	258.8 1153.1 288.6 4518.9 260.3	319.3 2061.4 341.9 6197.9 463.4	506.1 2415.4 358.0 7249.8 336.4	315.4 2523.8 454.4 8794.7 303.6	213.7 2430.6 558.4 10423.9 370.3	128 2582 649 11707	82 4295 731 13987 361	54 5786 780 16555 361	22 6629 754 19517 361	7238 740 22573 361	7584 779 25719 361	7682 824 28951 361	52 346 43 1788 233	319 2062 342 6198 463	82 4295 731 13987 361	7682 824 28951 361
Restricted Subscr. & Other Assets TOTAL ASSETS	1030.9	1397.2	1729.8	2078.2	2401.6	233.5	2899.3	4061.5	4927.7	6479.7	9383.9	10865.7	12391.9	13996.9	<u>361</u> <u>15427</u>	19456	23536	27283	30939	34496	37921	2462	9384	19456	37921
Indisbursed Credits d/ Loans from Switzerland	426.8	585.9	670.8	683.6	670.5	445.9 12.1	572.0 12.1	1031.5	1363.7	2096.1	2989.1 62.2	3336.6 60.7	3878.1 72.7	4273.4 73.6	4218 74	5205 74	6301 74	7439 74	8286 74	9025 73	9621 73	446 12	2989 62	5205 74	9621 73
ransfers from IBRD c/ ccumulated Net Income aid Subscriptions & Supplements	2.4	4.1 807.2	50.0 6.7 1102.3	9.8 1259.8	200.0 14.4 1516.7	210.0 21.4 1773.1	285.0 31.9 1998.3	385.0 38.6 2594.3	485.0 45.7 3020.6	595.0 64.2 3710.6	703.3 69.9 5559.4	810.8 81.8 6575.8	907.5 89.8 7443.8	1011.6 83.4 8554.9	76 9957	1192 60 12925	1282 33 15846	1372 5 18393	1462 -22 21139	1552 -40 23886	1642 48 26633	210 21 1773	703 70 5560	1192 60 12925	1642 -48 26633
TOTAL LIABILITIES	1030.9	1397.2	1729.8	2078.2	2401.6	2462.5	2899.3	4061.5	4927.7	6479.7	9383.9	10865.7	12391.9	13995.9	15427	19456	23536	27283	30939	34496	37921	2462	9384	19456	37921
ncome .ess: Administrative Expenses	5.7 3.2	4.3	5.5	6.5	8.8	12.2	14.6	22.5 15.8	27.0 19.3	28.1	35.6 30.9	57.5 43.2	67.9 47.6	62.8	65 73	70 86	77 104	87 115	99 126	116 134	137	37 17	128 99	321 313	516 624
Net Loss (-) or Gain (+) on Deval.	_	_		_		-1.1	10.4	6.7	6	+19.5 18.5	±.9	<u>-2.5</u> <u>11.8</u>	8.0	-6.4	+1	-16	-27	-28	-27	- 18		<u>1</u>	+20	<u>-18</u>	-108
NET INCOME	2.5	1.7	2.6	3.1	4.6	7.0	10.4	6.7	7.1	1012	5.6			-		-16	-27		-27	-18	====				
IFC Balance Sheet Cash & Securities Investments - Loans	71.5 46.2 13.2	66.4 45.9 21.4	63.5 49.4 24.2	57.0 60.7 35.0	46.5 81.8 52.0	31.7 105.1 55.7	30.8 127.0 72.4	10.6 180.7 98.5	11.1 243.9 106.0	2.1 301.3 116.3	2.6 345.9 119.3	3.0 422.4 127.9	9.1 517.2 141.8	18.4 626.5 152.4	4.0 743.5 163.8	24.3 876.6 193.9	4.0 1021.0 246.4	4.0 1193.5 310.2	4.0 1381.7 390.7	4.0 1586.0 488.2	4.0 1908.3 503.7	31.7 105.1 55.7	2.6 345.9 119.3	24.3 876.6 193.9	4.0 1808.3 603.7
- Equity Less: Reserve Against Losses 1/ Net Accruals and Other Assets	1.5	3.0	3.5	4.6	6.0	7.8	9.6	12.9	15.8	17.3	6.1	4.3	4.4	30.7	36.7	43.5	51.4	62.0	75.9 6.0	92.9	113.3	7.8	6.1	43.5	113.3
TOTAL ASSETS	131.3	132.9	135.4	149.4	176.0	186.9	225.8	282.6	351.8	408.9	457.5	537.6	648.0	769.9	880.6	1057.3	1226.0	1451.7	1706.5	1991.3	2308.7	186.9	457.5	1057.3	2308.7
Undisbursed Commitments - Loans - Equity Undisbursed Loans and Equity	10.6 7.0 17.6	11.4 5.3 16.7	12.5 4.3 16.8	17.5 8.7 26.2	32.6 14.8 47.4	41.8 10.6 52.4	62.1 18.1 80.2	85.3 26.9 112.2	110.4 22.1 132.5	137.1 26.7 163.8	156.2 25.3 181.5	160.2 26.4 186.6	169.4 27.7 197.1	225.5 30.6 256.1	220,2 29,1 249,3	255.4 34.7 290.1	278.8 60.9 339.7	324.6 82.8 407.4	375.6 104.4 480.0	425.1 128.1 553.2	474.0 153.6 627.6	41.8 10.6 52.4	156.2 25.3 181.5	255.4 34.7 290.1	474.0 153.6 627.6
Loans from IBRD and Others Less: Undrawn Loans Withdrawn Loans	_	_	_	_	100.0	100.0	100.0	200.0 182.5 17.5	205.0 142.1 62.9	265.0 182.3 82.7	302.4 193.0 109.4	405.7 227.2 178.5	448.4 175.5 272.9	506.9 179.8 327.1	550.3 114.4 435.9	535.6 73.2 462.4	517.3 52.4 464.9	574.3 74.7 499.6	653.7 100.4 553.3	866.2 235.4 630.8	1110.2 276.1 834.1	100.0	302.4 193.0 109.4	535.6 73.2 462.4	1110.2 276.1 834.1
Capital and General Reserve k/	113.7	116.2	118.6	123.2	128.6	134.5	145.6 225.8	152.9 282.6	351.8	408.9	457.5	537.6	178.0 643.0	769.9	195.4 880.6	304.8	1226.0	544.7 1451.7	673.2 1706.5	807.3 1991.3	2303.7	186.9	166.6 457.5	1057.3	2308.7
Income Statement	27.3	5.4	5.7	7.5	9.2	10.1	12.0	15.4	14.7	18.3	19.6	26.2	34.2	43.3	53.9	67.2	78.9	92.6	108.1	125.8	145.5	37.9	80.0	224.8	550.9
Operating Income Less: Administrative Expenses Charges on IBRD Loans Income Before Investment Gains & Losses Realized Capital Gains	11.2	2.5	3.0	4.5	6.0	3.5 -4 -6.2 -5	7.5	5.4 	6.5 3.8 4.4 1.8	7.1 6.0 5.2 2.5	7.5 7.8 4.3 1.9	9.2 11.5 5.5 4.0	10.4 16.9 6.9 5.1	9.8 4.3 6.4	13.3 27.9 12.7 1.9	16.6 34.4 16.2 4.0	20.1 35.4 23.4 5.1	23.3 37.8 31.5 6.4	27.2 42.2 38.7 7.7	31.0 49.2 45.6 9.5	35.3 62.6 47.6 12.5	14.9 0.4 22.6 2.3	30.6 18.8 30.6 7.7	60.9 112.8 51.1 19.3	136.9 227.2 186.8 41.2
Provision for Losses NET INCOME	15.5	1.6	2.4	4.2	4.9	4.4	5.9	6.9	3.3	6.0	4.2	<u>3.6</u> <u>5.9</u>	5.4	7.7	8.6	13.4	20.6	27.3	13.9 32.5	38.1	39.7	17.6	26.3	41.0	69.8
HEMORANDUM ITEMS Number of Operations 1/- IBRD	348	37	39	37	46	44	82	69	78	72	73	105	122	141	152	151	160	169	177	184	192	203	374	671	882
- IDA - Total - IFC m/	35 383 68	17 54 18	18 57 16	12 49 19	-17 63 11	16 60 10	111 20	119 26	129 23	68 140 19 1966	75 148 25 2051	69 174 32 3218	68 190 31 4320	73 214 33 4977	219 33	89 240 37 6100	95 255 44 6800	102 271 47 7700	99 276 51 8600	96 280 54 9600	92 284 57 10700	80 283 7., 4296	273 647 1/3 8917	366 1037 166 24315	484 1366 253 43400
wount of Commitments - IBRD to Countries n - IDA Credits - IFC Commitments o/ - Total In Current \$	495 88 7705	283 20 1113	1023 309 26 1358 3421 39.7	839 284 35 1158 2845 40.7	777 353 49 1179	847 107 51 1005	1399 385 93 1877	1580 606 112 2298	1921 584 101 2606 4300 60.6	1000 116 3082 4552 67.7	1357 147 3555 4727 75.2	1095 203 4516	1576 212 6108	1655 245 6877	5700 1300 250 7250 7250 100.0	2300 300 8700 3108	2600 375 9775 8507 114. 9	3000 450 11150 9065	3100 530 12230 9293	3200 610 13410 9524	3300 685 14635	1336 183 5815 14140	3932 569 13418 21650	7926 1210 33451 35299	15200 2650 61250 46134
- Total in FY77 Comm. Commitment Deflator (FY77 = 100) No. of IBRD/IDA Proj. Under Supervision 9/ Disbursements - IBRD Loans 1/	525 3242	2854 39.0 249 461	280 506	2645 40.7 305 544 267	2787 42.3 330 582 342	2233 45.0 350 600	3831 49.0 383 645 256	4240 54.2 468 740 143	588 912	67.7 627 1181 261	75.2 705 1175 493	5541 81.5 770 1530 711	7021 87.0 946 1954 1025	73/9 93.2 1112 2470 1251	2700	107.3 1289 3400 1313	114. 9 1383 4238 1494	123.0 1495 4923 1352	131.6 1600 5739 2243	140.8 1705 6490 2451	9745 150.7 1810 7354 2694	350 2693 1275	705 4653 1388	1289 12054 5660	1810 28744 10734
- IDA Credits - IFC Commitments - Total in Current \$ Wet Disbursements s/ - IBRD Loans	68 61 3371 2488	124 16 601 303 124 427 153	16 744 331	22 833 347 267 614 165	25 949 356	319 33 952 367	33 934 374	968 439	235 72 1219 586	61 1503 811	88 1756 733 489 1222	162 2403 1009	184 3163 1460 1014	3921 1897	1360 254 4314 2042	267 4980 2643	321 6053 3383	365 7140 3940	438 8420 4483	513 9454 4779	591 10639 5035 2636	112 4080 1734 1275	339 6380 2943	1057 13781 9051	2228 41706 21620
- IDA Credits - Total In Current \$ let Transfer t/ - IBRD Loans - IDA Credits	68 2556 1804 68	124 427 153 123	222 553 167 220	614 165 264	342 698 155 337	319 686 146 311	33 934 374 256 630 129 246 375 778 48.2	143 582 160 131	235 821 268 221	259 1070 441 244	461	704 1713 415 677	2474 813	1238 3135 1070 1196	1343 3335 1045 1292	1293 3936 1446 1232	1472 4855 1913 1401	1824 5764 2103 1740	2209 6692 2269 2112	2407 7186 2126 2294	7671 1370	2979 786	1382 4325 1269 1304	5592 14643 4789 5378	10548 32168 10281 10052
- Total in Current \$ - Total in FY77 \$ <u>u</u> / Disbursement Deflator (FY77 = 100)	68 1872	123 276 600 46.0	220 387 834 46.4	264 429 911 47.1	337 492 1029 47.8	311 457 958 47.7	375 778 48.2	131 291 572 50.9	221 489 902 54.2	244 685 1138 60.2	732 1121 65.3	677 1092 1415 77.2	981 1794 1987 90.3	1196 2266 2418 93.7	1292 2337 2337 100.0	1232 2678 2500 107.1	1401 3314 2872 115.4	1740 3843 3097 124.1	2112 4381 3299 132.8	2294 4420 3110 142.1	2505 4375 2878 152.0	1256 2042 4332	1304 2573 4511	5378 10167 10657	10052 20333 15256
Disbursement Deflator (FY77 = 100) Borrowings by IBRD (new issues) Less: Debt Retirement Net Borrowing by IBRD	3987 1461 2526	100 132 -32	598 348 250	288 224 64	729 226 503	735 514 221	1224 526 698	735 436 299	1368 548 820	1744 608 1136	1723 768 955	1853 863 990	3510 1027 2483	1278 3330	4100 <u>×</u> 1460 2640	3800 1448 2352	5200 1649 3551	5900 2125 3775	6600 2357 4243	7400 2666 4734	7300 2789 4511	2450 1444 1006	6794 2836 3908	17871 6076 11795	32400 11586 20814
Staff End Year # - Professional - Non-Professional */	429 505 934	463 553 1016 8.8	529 603 1132 11.4	728 1392 23.0	731 805 1536 10.3	763 858 1621	957 925 1883	1174 1071 2245 19.2	1322 1249 2571 14.5	1521 1446 2977	1657 1567 3224 8.3	1754 1695 3449 7.0	1883 1820 3703 7.4	2024 1968 3992 7.8	2170 2072 4242 6.3	2321 2170 4491	2393 2238 4631 3.1	2466 2304 4770 3.0	2540 2373 4913 3.0	2616 2444 5060	2695 2517 5212 3.0	763 858 1621 11.7	1657 1567 3224 14.7	2321 2170 4491 6.9	2695 2517 5212 3.0
- Total - % Increase	334	8.8	11.4	23.0	10.3	5.5	1883	19.2	14.5	2 <u>977</u> 15.8	8.3	7.0	7.4	7.8	6.3	5.9	3.1	3.0	3.0	3.0	3.0	11.7	14.7	6.9	3.0

a/ Projections assume:

- Real growth in IBRD lending of 5% per year.

- A sixth IDA Replenishment at the same real level as the Fifth Replenishment.

- A long-term rate of inflation of 7% (see footnote u below).

- A positive spread between the lending rate and the cost of new borrowing (weighted by amount and maturity) of .50% in FY78-83.

- A negative spread between the return on securities investments and the cost of new borrowing (weighted by amount and maturity) of .85% in FY78 and .65% in FY79-63.

- Liquidity equal to at least 40% of the next 3 years borrowing requirements.

FY	Annual Rate of Inflati
1978	7.1%
1979	7.8%
1980	7.5%
1981	7.0%
1982	7.0%
1983	7.0%

y/ \$797 million of the borrowing planned for FY77 was advanced to FY76 and \$800 million planned for FY78 is to be advanced to FY77.

y/ Does not include positions for reimbursable technical

assistance programs.

x/ Does not include locally-hired staff in field offices.

711/4/18

IBRD Subscribed Capital Requirements Under Alternative Assumptions (current \$ billion)

A. Alternative Assumptions Regarding Frequency

		(e (Real)				
	Sufficient to Growth Through	0%	3%	5%	7%	9%_	
Sustain	FY83 FY84 FY85	19 [25] [31]	25 32 39	30 38 48	35 46 59	41 55 [69]	

Other assumptions: (i) "non-disruptive adjustment" interpreted as a decline of 6% in nominal terms each year for four years.

(ii) long-term inflation rate assumed to be 7% per annum

(iii) repayment terms: grace period 4.3 years final maturity 20 years amortization - annuity pattern

B. Alternative Assumption Regarding "Non-Disruptive Adjustment"

			Non-Disruptive	C	ommi tme	nt Gro	wth Rate	(Real)
Adjust	tment"	(Peak Ye	ear = 100)	0%	3%	5%	7%	9%
Yr 1	Yr 2	Yr 3	Yr 4 et seq					
100	100	100	100	25	33	39	46	53
94	88	82	76	19	25	30	35	41
92	84	76	76	18	24	29	35	41
90	80	80	80	18	24	29	35	41

Other assumptions: (i) capital sufficient to sustain growth through FY83

(ii) long-term inflation rate assumed to be 7% per

annum

(iii) repayment terms: as above

C. Alternative Assumptions Regarding Repayment Terms

Grace	Final	Method of	Com	ni tmen	t Grow	th Rat	te (Rea	1)
Period	Maturity	Amortization	0%	3%	5%	7%	9%	
3.8	18.0	EPP	11	16	20	24	.29	
4.3	18.0	EPP	[12]	17	21	25	[30]	
4.3	18.0	Annuity	[17]	21	25	30	[35]	
4.3	20.0	Annui ty	 19	25	30	35	41	
4.3	21.5	Annui ty	[23]	28	33	38	45	

Other assumptions: (i) capital sufficient to sustain growth through FY83.

(ii) long-term inflation assumed to be 7% per annum

(iii) "non-disruptive adjustment" interpreted as a decline of 6% in nominal terms each year for four years.

WE BELIEVE THE INDUSTRIALIZED COMMUNIST COUNTRIES

ALSO SHOULD INCREASE THEIR DEVELOPMENT ASSISTANCE. WE

ARE PREPARED TO JOIN WITH THEM IN SUCH ASSISTANCE, WHEN

AND WHERE THEY ARE WILLING TO DO LT.

WE SHOULD AGREE HERE TO SUPPORT A SUBSTANTIAL INCREASE
IN THE GENERAL CAPITAL OF THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT. SUCH AN INCREASE WOULD
NOT ONLY PERMIT THE WORLD BANK TO EXPAND ITS NORMAL
LENDING IN REAL TERMS. IT ALSO WOULD ENABLE THE BANK TO
UNDERTAKE NEW PROGRAMS IN AREAS OF GROWING IMPORTANCE
--ENERGY, RESOURCE DEVELOPMENT, AND COMMODITY
DIVERSIFICATION.

THE DEVELOPMENT OF LOCAL OIL, COAL, GAS, AND OTHER
ENERGY RESOURCES IN DEVELOPING COUNTRIES POOR IN ENERGY
WILL HELP EASE THE RISING FINANCIAL BURDEN OF HIGH-PRICED

/OIL IMPORTS. THE UNITED STATES

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

711/4/15

OFFICE MEMORANDUM

TO: Mr. Hal F. Reynolds, Executive Director

DATE: May 20, 1977

FROM: D. Joseph Wood, Assistant Director, P&B

SUBJECT: Treasury Request for Information on IBRD Financial Projections

Please find attached the items of information requested in the second part of Mr. Thomson's memorandum of April 4th and discussed in our meeting with Mr. Thomson and Mr. Frederick on April 28th. They follow the sequence set out in Mr. Thomson's memorandum; namely

Response to Question A. The division of future IBRD commitments between middle income and the poorest countries. The classification of countries into these two categories follows the Role of the Bank paper.

Question B. Distribution of future borrowing by currency. We agreed on April 28th not to pursue this item.

Response to Question C. Projections of returns on various IBRD assets and liabilities.

Response to Question D. As agreed at the April 28th meeting, two items of information are being supplied. The first item shows the approximate distribution of total project financing separately for the IBRD and IDA over the last few years. You will note that not all IBRD loans are covered in this table. The second item provides material which can be used to estimate the outer limits for sales of participations in IBRD loans to commercial banks.

I believe this information now covers all pending requests from the Treasury concerning IBRD financial projections. If this is not the case, or if there are new requests, please let me know.

Attachments

IBPD Lending by Income Category FY78-85 a/ (\$ millions)

	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
Poorest Countries Middle Income Countries High Income & Oil-Exporting	783 4077	7.89 4528	840 5182	887 5799	945 6402	1055 7250	1131 7755	1210 8279
Countries	1240	1483	1678	1814	2153	2345	2514	2712
Total	6100	6800	7700	8500	9500	10650	11400	12200

Effect of Shortening Maturities for Middle Income Countries by 25%

	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
Increase in Loan Repayments	-	-	-	_	58	168	309	491
Reduction in Net Income b/	-		-	-	-	1	2	3
Net Effect on Cash Flor	w -	-	-	-	58	167	307	488

a/ As shown in Annex Table 1 to "Future Role of the World Bank and its Associated Capital Requirements" (R77-18, dated January 31, 1977).

b/ Calculated by applying the spread of .50% between the assumed lending rate on new lending (9.00%) and the assumed average cost of new borrowing (8.50%) to the reduction in average disbursed loans which would result from shorter maturities. Ignores secondary effects on liquid holdings and retained earnings.

IBRD Financial Indicators: FY78-85 a/

Key Interest Rates (%)

	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
Lending rate b/	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Average return on disbursed								
lcans	6.85	7.30	7.66	7.90	8.14	8.40	8.55	8.60
Peturn on new disbursements	8.25	8.52	8.70	8:81	8.90	8.94	8.95	8.99
Return on liquid assets b/	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85
Average cost of new borrowing b/	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average cost of outstanding								
debt	7.48	7.77	7.90	8.01	8.14	8.28	8.36	8.40

a/ Based on the projections shown in Annex Table 1 to "Future Role of the World Bank and its Associated Capital Requirements" (R77-18, dated January 31, 1977).

b/ Basic assumption for financial projections.

SOURCES OF FINANCE FOR WORLD BANK GROUP PROJECTS

Total project costs, and therefore sources of finance, cannot usefully be calculated for IBRD and IDA projects in such fields as: agricultural credit, technical assistance, development finance companies, program lending, and sector loans made in support of large ongoing public sector investment programs. The table therefore shows in lines 1 and 6 lending by IBRD (including Third Window in FY76) and IDA only for projects in other fields, where total project costs can be assessed. For these projects, lines 2 and 7 show cofinancing by other external sources of finance, lines 3 and 8 show the contribution made by the government or other domestic sources of finance, and lines 4 and 9 show total project costs. Lines 5 and 10 show, pro memoria, lending for the purposes listed above, which are not covered by lines 1 and 6. The same problem does not arise with IFC investments, where the size of the total project is always identifiable. Lines 11 to 14 show the composition of financing since FY73, when data on this were first compiled.

	FY 70	<u>FY71</u>	FY72 (\$ r	FY73	FY74	<u>FY75</u>	FY76
IBRD Lending							
 IBRD "Project" Loans Cofinancing Local Contribution Total Cost of Projects Other IBRD Loans 	1014 303 1065 2382 566	1439 227 1572 3238 482	1245 347 1582 3174 721	1743 361 2308 4412 308	2538 967 3133 6638 661	2934 527 4044 7505 1336	3661 1348 5035 10044 1316
IDA Lending							
6. IDA "Project" Credits 7. Cofinancing 8. Local Contribution 9. Total Cost of Projects 10. Other IDA Credits	368 118 381 867 238	343 23 199 565 241	668 207 497 1372 332	859 213 867 1939 498	701 284 705 1690 394	1052 262 1079 2393 524	1055 265 938 2258 600
IFC Investments							
11. IFC Investments 12. Other External Finance 13. Local Contribution 14. Total Costs of Projects		•		147 134 200 481	203 269 303 775	212 599 595 1406	245 308 859 1412

Limits to Commercial Bank Participation in IBRD Projects

Commercial banks typically do not lend for maturities of more than 5 to 7 years. Thus, an upper limit for commercial bank participation in IBRD projects is set by the amount of repayments falling due within seven years from the date of commitment. As the table below shows, the maximum percentage of original amount which might be subject to participations is much greater under the present repayment terms than was the case prior to FY77; i.e. about 17% is repaid in the first seven years compared to 6% previously. In FY77, this theoretical limit to participations would be about \$970 million. Naturally, the amount of this lending which might be financially attractive to commercial banks is considerably less.

Cumulative Percentage of Original Amount Repaid

	"Typical" Terms	FY77
	Prior to FY77 /a	Terms /b
		1021110 110
Year of Commitment		
Year 2	- · ·	-
Year 3		-
Year 4	-	0.2
Year 5	0.7	3.7
Year 6	2.8	10.0
Year 7	6.0	17.2
Year 8	9.5	24.4
Year 9	13.3	31.6
Year 10	17.5	38.8

[/]a Prior to July 1, 1976, terms of IBRD lending varied by sector but were influenced to a small degree by country considerations. The weighted average for all sectors and countries over the FY71-76 period was a grace period of about 5 years and a final maturity of about 21 years. Repayment schedules on all loans were based on annuity-type amortization of principal.

[/]b Present terms vary by GNP per capita of the borrowing country. The weighted average for all countries is a grace period of 3.8 years, and a final maturity of 18.0 years. All borrowers repay principal in equal semi-annual installments.

HY 16 1977

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CIEC

CIEC - FINAL SESSION - NO. 11

1. RESULTS FOR THE BANK

THE FINAL MEETING OF THE CIEC COMMISSIONS WHICH HAD BEGUN ON APRIL 29, ENDED IN THE AFTERNOON OF SATURDAY, MAY 16, WITH LITTLE OVERALL PROGRESS ON THE MORE SUBSTANTIVE ISSUES, BUT WITH REMARKABLE RESULTS FOR THE BANK.

FIRST. THE CONTACT GROUP ON ODA, WHICH DISCUSSED INTER ALIA THE BANK'S CAPITAL REQUIRENENTS, WAS THE MOST SUCCESSFUL IN GETTING AGREEMENT ON THE TEXT OF DRAFT PROPOSALS. THE TEXT CONCERNING THE BANK NOW READS AS FOLLOWS: QUOTE PARTICIPANTS IN CIEC WELCOME THE AGREEMENT REACHED RECENTLY BY THE BOARD OF DIRECTORS OF THE BANK ON INDICATIVE PLANNING ASSUMPTIONS FOR AN INCREASED LENDING PROGRAMME OF DOLLARS 6.1 BILLION IN FY 1978 AND DOLLARS 6.8 BILLION IN FY 1979. THE CAPITAL BASE OF THE WORLD BANK SHOULD BE INCREASED SUFFICIENTLY TO PERMIT ITS LENDING TO RISE ADEQUATELY IN REAL TERMS IN THE YEARS AHEAD. NEGOTIATIONS FOR A GENERAL INCREASE IN THE CAPITAL OF THE BANK SHOULD BE UNDERTAKEN, AS SOON AS POSSIBLE, SO AS TO ALLOW THE BANK TO ACHIEVE ITS LENDING PROGRAMME OF DOLLARS 6.8 BILLION INFY 1979 AND THEREAFTER FURTHER INCREASES IN ITS LENDING IN REAL TERMS. THE THIRD WINDOW OF THE WORLD BANK SHOULD BE BROUGHT TO THE ORIGINAL TARGET OF DOLLARS I BILLION BY CONTRIBUTIONS FROM WHEREVER POSSIBLE. UNQUOTE. PLEASE NOTE THE ABSENCE OF SQUARE BRACKETS WHICH MAKES THIS AN AGREED TEXT AT COMMISSION LEVEL WITH BITTLE FORESEEABLE PROBLEMS AT THE FORTHCOMING SENIOR OFFICIALS AND MINISTERIAL MEETINGS.

SECOND, THERE IS GENERAL AGREEMENT ON AN EXPANDED BANK ROLE IN ENERGY LENDING, WITH A GROUP OF NON-OIL LDCS GOING AS FAR AS DEMANDING A YEARLY VOLUME OF 5 BILLION SORS ENERGY LENDING BY THE

BANK.

THIRD, THE G-E WANT THE BANK TO SPONSOR A MECHANISM FOR CONTINU-ING ENERGY CONSULTATIONS DEALING WITH GLOBAL DEMAND AND SUPPLY ISSUES. THOUGH OPEC MEMBERS HAVE NOT YET AGREED TO FUTURE ENERY CONSULTATIONS.

IN SUM; THIS MEANS THAT CIEC WILL BE TURNING TO THE WORLD BANK FOR THE IMPLEMENTATION OF SOME OF ITS MAJOR POLICY PROPOSALS.

2. OVERALL SITUATION AND OUTLOOK

THE REPORTS OF THE INFORMAL CONTACT GROUPS WERE HEARD BY THE FULL COMMISSIONS, AND THEIR DRAFT PROPOSALS WERE ADOPTED. THEY WILL NOW BE COMPILED BY THE CO-CHAIRMEN AND SUBMITTED TO THE SENIOR OFFICIALS MEETING SCHEDULED FOR MAY 26/27. A FULL SET OF REPORTS AND PROPOSALS IS BEING HAND CARRIED TO YOU.

THE RESULTS REPORTED BY THE CONTACT GROUPS, WHICH HAD PUT IN
LONG HOURS DURING THE LAST FEW DAYS, CAUSED DISSATISFACTION IN THE
GROUP OF 19 DEVELOPING COUNTRIES. THE DRAFT PROPOSALS ARE STILL FULL
OF SQUARE BRACKETS AND TWO-COLUMN PRESENTATIONS OF CONFLICING
POSITIONS. MANY IMPORTANT G-19 DEMANDS SUCH AS DEBT RELIEF,
INDUSTRIALIZATION, AGRICULTURE AND FOOD AID, TRANSFER OF TECHNOLOGY,
FOREIGN INVESTMENTS, INFLATION AND MOST RAW MATERIAL ISSUES INCLUDING
THE COMMON FUND WERE LEST UNRESOLVED.

AT THE SAME TIME, SOME PROGRESS WAS ACHIEVED IN THE AREA OF ODA, COOPERATION AMONG LDGS, ACCESS TO CAPITAL MARKETS, ENERGY DEVELOPMENT IN LDGS AND SUCH UNCONTROVERSIAL ISSUES AS RESEARCH AND DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

EDMUND WELLENSTEIN OF THE EEC TOOK THE INITIATIVE TO DISCLOSE IN A QUOTE PERSONAL DECLARATION UNQUOTE TO THE JOINT FINANCE AND DEVELOPMENT COMMISSIONS, FOR WHICH HE SAID HE HAD NO MANDATE, THAT THE GROUP OF 8 INDUSTRIALIZED PARTICIPANTS WERE DISCUSSING AMONG THEMSELVES A SPECIAL ACTION OF ONE BILLION DOLLARS ODA. HE SAID HE UNDERSTOOD THAT THE G-8 WERE AGREED ON THE GENERAL OUTLINE OF THIS APPROACH, AND THAT A DECISION WOULD BE REACHED IN TIME TO CONTRIBUTE IN THIS WAY TO A BALANCED OUTCOME OF THE CIEC. BEFORE

MR WELLENSTEIN'S INTERVENTION, THE ONE BILLION DOLLAR PROPOSAL HAD NOT YET BEEN OFFICIALLY MENTIONED IN THE CIEC.

THEREAFTER, THE CONCLUDING REMARKS OF G-19 REPRESENTATIVES

WERE NOTICEABLY MORE CONCILIATORY SEMI COLON WHILE STILL EXPRESSING

DISARPOINTMENT, THERE WAS APPRECIATION OF THE SERIOUS DRAFTING

EFFORTS AS WELL AS REASONABLE HOPE FOR A POSITIVE OUTCOME OF THE

FINAL PHASE OF CIEC. G-19 REPRESENTATIVES EMPHASIZED THAT IT WAS

UNTHINKABLE FOR CIEC TO END WITH A ZERO RESULT, OTHERWISE THERE

WOULD BE GRAVE CONSEQUENCES FOR THE WORLD ECONOMY. IT IS CLEAR

THAT A SERIOUS BARGAINING EFFORT IS NOW REQUIRED BY THE SENIOR

OFFICIALS AND BY THE MINISTERS, WHERE SOME CARDS WILL FINALLY HAVE

TO BE PUT ON THE TABLE.

3. CONTACT GROUPS REPORTING TO COMMISSIONS

PRIMO ENERGY COMMISSION

THE COMMISSION RECEIVED A REPORT BY THE U.S. AND SAUDI COCHAIRMEN. THE REPORT PROPOSES THAT THE WORLD BANK IN CONJUNCTION
WITH THE DEVELOPMENT COMMITTEE SOON EVALUATE HOW IT CAN EXPAND ITS
ENERGY DEVELOPMENT ROLE, PARTICULARLY IN OIL-IMPORTING LDCS. THE
BANK SHOULD AUGMENT (PUBLIC) CAPITAL AVAILABILITY TO LDCS, ACT AS
A CATALYST FOR ADDITIONAL FLOWS FROM OTHER (PRIVATE) SOURCES, HELP
TO IMPROVE THE INVESIMENT CLIMATE, AND THEREBY PROMOTE EXPLORATION.
MEMBER STATES SHOULD TAKE THE CAPITAL REQUIREMENTS OF ENERGY
DEVELOPMENT INTO ACCOUNT WHEN DECIDING ON THE WORLD BANK'S CAPITAL
INCREASE, BEARING IN MIND THAT ITS LENDING TO OTHER PRIORITY AREAS
SHOULD NOT BE PREJUDICED BY A NEW LARGE ENERGY PROGRAM.

JAMAICA, INDIA, BRAZIL, CAMEROON AND ZAIRE SUBMITTED A MORE AMBITIOUS PROPOSAL FOR THE BANK, CALLING FOR A BANK ENERGY PROGRAM OF NOT LESS THAN 5 BILLION SDRS PER ANNUM OVER 1980-85, WITHOUT AFFECTING NORMAL REAL GROWTH IN LENDING FOR OTHER PURPOSES.

INDUSTRIALIZED STATES SHOULD ALSO CONTRIBUTE 300 MILLION SDRS PER ANNUM DURING THE NEXT THREE YEARS TO AN APPROPRIATE INSTITUTION FOR ENERGY EXPLORATION IN LDCS.

THE SAME NATIONS ALSO PROPOSED THAT THE IMP PROVIDE FOR FIVE YEARS STARTING IN 1977 A SPECIAL CREDIT FACILITY TO ASSIST ENERGY IMPORTING LDCS AT AN AMOUNT OF A BILLION SDRS ANNUALLY ON CONDITIONS SIMILAR TO THE OIL FACILITY. JAMAICA ADDED THAT THE IMP SUPPLEMENTARY CREDIT FACILITY SHOULD RESEMBLE A LIBERALIZED OIL FACILITY.

THE IMP INTEREST SUBSIDY ACCOUNT SHOULD BE EXPANDED.

IN GENERAL, THE ATMOSPHERE IN THE ENERGY COMMISSION WAS VERY GOOD. PROGRESS HAD BEEN MADE ON SECONDARY ISSUES. HOWEVER, CRUCIAL PROBLEMS SUCH AS PRICES AND FUTURE IMPORTER-EXPORTER CONSULTATIONS (WITH A POSSIBLE ROLE FOR THE BANK) WERE LEFT TO THE SENIOR OFFICIALS AND MINISTERS. AGREEMENTS REACHED SO FAR ARE AD REFERENDUM AND CONDITIONAL UPON SATISFACTORY RESOLUTION OF THESE REMAINING ISSUES. BOTH G-8 AND G-19 STRESSED THE LINK BETWEEN THE OIL PRICE AND CONSULTATION ISSUES AND FUTURE PROGRESS IN OTHER COMMISSIONS.

SECUNDO RAW MATERIALS COMMISSION

THE REPORTS OF FOUR CONTACT GROUP REVEAL SIMILAR DISAGREEMENTS
AS THOSE WHICH PREVAILED IN NOVEMBER 1976. U.S. HAS NOT AGREED
TO THE EEC POSITION ON A COMMON FUND AND SEEMS TO BE HOLDING BACK
ITS APPROVAL FOR LAST MINUTE BARGAINING. AGREEMENT HAS BEEN
REACHED ON INVITING THE DEVELOPMENT COMMITTEE TO STUDY A WORLDWIDE STABEX, THOUGH THERE ARE DIFFERENCES ON THE TERMS OF REFERENCE.
G-19 WANT A FAR-GOING LIBERALIZATION OF THE IMF COMPENSATORY
FACILITY TO WHICH A STABEX TYPE SCHEME SHOULD BE ADDITIONAL. THE
STUDY SHOULD BE DONE IN ASSOCIATION WITH UNCLAD AND BE FINISHED
BY APRIL 1978 ACCORDING TO G-19. G-8 OBJECT THAT THESE AND OTHER
G-19 CONDITIONS PREJUDICE THE OUTCOME.

MANY OTHER DISPUTED ISSUES OF LOWER PRIORITY MAY HAVE TO BE DROPPED TO ENABLE THE SENIOR OFFICIALS TO FOCUS ON IMPORTANT DISAGREEMENTS. OF ALL FOUR COMMISSIONS, THE ONE ON RAW MATERIALS HAS MADE THE LEAST PROGRESS.

TERTIO FINANCE AND DEVELOPMENT COMMISSIONS

. PERNICIOUS EFFECTS OF INFLATION, BUT CONFLICTING POSITIONS ON THE

CAUSES OF INFLATION AND ON ANTI-INFLATIONARY MEASURES.

BBB. THE CONTACT GROUP ON COOPERATION AMONG LDCS SAID THAT THERE WAS MUCH COMMON GROUND, BUT CONFLICTS REMAIN AS TO WHERE THE MAJOR SUPPORT FOR LDC COOPERATION SHOULD COME FROM. A LARGE ROLE IN FINANCING REGIONAL SCHEMES WOULD BE ASSIGNED TO MULTILATERAL INSTITUTIONS.

CCC. THE CONTACT GROUP ON FINANCIAL ASSETS OF OIL EXPORTING LDCS
REPORTED A COMPLETE FAILURE TO ACHIEVE AGREEMENT, WITH THE G-8
STILL REFUSING TO PROVIDE ANY SPECIAL PROTECTION FOR THE REAL
VALUE OF SUCH ASSETS. THE REPORT CONSISTS OF A STRAIGHTFORWARD
TWO-COLUMN PRESENTATION WITH NOT A SINGLE AGREED POINT. THE
SAUDI DELEGATE SAID THAT IF THERE WAS NO PROTECTION, OIL PRODUCERS
COULD TAKE MEASURES TO REDUCE THE FUTURE ACCUMULATION OF THEIR
ASSETS, I.E. TO CURTAIL OIL PRODUCTION.

CGC. THE CONTACT GROUP ON FOREIGN DIRECT INVESTMENT, ACCESS TO
CAPITAL MARKETS AND OTHER FINANCIAL FLOWS REPORTED UNRESOLVED
DIFFICULTIES REGARDING RULES FOR FOREIGN INVESTMENTS, IN PARTICULAR
WHERE THEY TOUCH UPON NATIONAL SOVEREIGNTY. THERE WAS PROGRESS IN
THE ACCESS TO CAPITAL MARKETS ISSUE, ALSO DASED ON THE WORK OF
THE DEVELOPMENT COMMITTEE. AS TO THE OTHER FLOWS, THE G-19 TOOK
A STRONG STAND IN FAVOR OF QUICK IMPLEMENTATION OF THE SUPPLEMENTARY IMF FACILITY.

DDD. THE CONTACT GROUP ON LDC INDEDTEDNESS REPORTED A TOTAL FAILURE. THEIR TEXT CONSISTS OF A REPETITION OF LAST YEAR'S STATEMENTS BY THE G-19, THE U.S. AND THE EEC, AND SWEDEN.

EEE. THE CONTACT GROUP ON ODA SAID THEIR PROGRESS ON ALL SUBJECTS WAS SIGNIFICANT, PARTICULARLY ON THE ROLE OF MULTILATERAL FINANCIAL INSTITUTIONS. THE G-19 STILL HAD SOME COMPLAINTS AT G-8 HESITATIONS TO ADOPT CLEAR GUIDELINES ON HOW TO ATTAIN THE O.7 PERCENT ODA TARGET.

PRODUCED NO AGREEMENT ON FOOD PRODUCTION AND FOOD SECURITY,
ALTHOUGH THERE WAS PROGRESS IN THE AREA OF AID FOR AGRICULTURAL
INPUTS, PARTICULARLY SEEDS AND PESTICIDES. FOR INFRASTRUCTURE,
ATTITUDES WERE GENERALLY OPTIMISTIC, ALTHOUGH THE AFRICANS WERE
DISAPPOINTED FOR THE *DECADE FOR AFRICAN TRANSPORTATION AND
TELECOMMUNICATION* WAS NOT ADOPTED.

GGG. THE CONTACT GROUP ON INDUSTRIALIZATION AND TRANSFER OF
TECHNOLOGY ISSUED A DISAPPOINTING REPORT WITH NO PROGRESS IN MAJOR
OBJECTIVES SUCH AS THE INDUSTRIALIZATION GOAL, THE ROLE OF UNIDO,
CONSULTATIONS, MARKET ACCESS, APPROACH TO CAPACITIES AND STRUCTURAL
MEASURES. THERE WERE LIMITED RESULTS IN THE AREAS OF TECHNICAL
ASSISTANCE AND THE INDUSTRIAL DEVELOPMENT FUND. COMPLAINTS ABOUT
THE OBSTRUCTIVE TACTICS OF "ONE G-8 DELEGATION" WERE HEARD
(MEANING THE U.S.) BUT THE G-8 SAID THAT AGREEMENT WAS WITHIN
REACH FOR MOST UNRESOLVED ISSUES.

HHH. THE CONTACT GROUP ON TRADE REPORTED THE ELIMINATION OF SOME CONFLICTS, PARTICULARLY IN THE AREA OF THE MULTILATERAL TRADE NEGOTIATIONS AND OF THE MULTI-FIBER AGREEMENT, BUT THE G-19 DEPLORED THE ABSENCE OF PROGRESS ON THE GENERAL SYSTEM OF PREFERENCES AND ON TROPICAL PRODUCTS.

END OF CIEC NO. 11

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A WORD OF THANKS AND APPRECIATION FOR THE VALUABLE CONTRIBUTION FROM JORIS VOORHOEVE DURING THE LAST DAYS OF THIS PHASE OF CIEC. REGARDS

May 10, 1977

Mr. McNamara:

Only a minor suggestion: could the beginning of paragraph 3 read "In view of these developments I believe the Executive Directors would now wish to consider...."

P. N. Damry

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THE WORLD BANK

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Agasts 711/4/12

May 10, 1977

Danker 3/13

At their meeting on March 8th the Executive Directors of the Bank agreed that June 1978 would be appropriate as a final target date for completing discussions on the future role of the Bank and its associated capital requirements. It was recognized that these discussions would need to begin promptly and to be pursued vigorously in order to reach agreement on, or if possible even before, June 1978. There were differences of opinion on how and, more particularly, when to arrange these discussions, though there seemed to be general agreement on the desirability of completing at least one round of discussions before the Annual Meeting.

In the past few days there have been several important meetings at which the subject of the Bank's capital requirements has been discussed. Representatives of the developing countries, meeting as the Group of 24 prior to the Development Committee session on April 27th, issued a statement in which they urged that "the capital of the World Bank and the regional development finance institutions should have a sizable increase". The heads of state of seven major developed countries and the President of the European Community also addressed the Bank's capital requirements in the communique issued at the conclusion of their meeting in London on May 8th, They expressed support for the World Bank and stated that its general resources "should be increased sufficiently to permit its lending to rise in real terms".

In view of these developments it would seem desirable for the Executive Directors to consider at an early date the specific features of a capital increase for the Bank which would be adequate to support the lending objectives endorsed by both its developing and developed member countries. Particular attention might be paid to the terms, conditions and timing of a General Capital Increase as set out in Sections 6 and 7 of the January 31st memorandum on the "Future Role of the World Bank", The timing of these discussions can be flexible, to suit the convenience of the Directors. One set of dates which could be considered would be to begin on July 7th with a discussion of the frequency of future capital increases for the IBRD and of the interpretation to be given to the notion of "non-disruptive adjustment" in planning for future capital increases. Consideration of the topics raised in Section 6, leading to a tentative conclusion regarding the amount of the increase, would then continue on July 12th with a discussion of the planning assumptions to be used with respect to inflation and the repayment terms for future IBRD loans. On July 14th, the issue of voting rights and Board representation for the developing countries could then be taken up. It would be understood that discussions on each of these topics would continue until the views of all member countries had been fully stated and explored. Discussions of other relevant issues raised in the "Future Role of the World Bank" paper could commence immediately after the Annual Meeting against the background of what would then hopefully be an emerging consensus on the terms, conditions and timing of a specific capital increase for the IBRD.

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May 13, 1977 711/4/13

At their meeting on March 8th the Executive Directors of the Bank agreed that June 1978 would be appropriate as a final target date for completing discussions on the future role of the Bank and its associated capital requirements. It was recognized that these discussions would need to begin promptly and to be pursued vigorously in order to reach agreement on, or if possible even before, June 1978. There were differences of opinion on how and, more particularly, when to arrange these discussions, though there seemed to be general agreement on the desirability of completing at least one round of discussions before the Annual Meeting.

In the past few days there have been several important meetings at which the subject of the Bank's capital requirements has been discussed. Representatives of the developing countries, meeting as the Group of 24 prior to the Development Committee session on April 27th, issued a statement in which they urged that "the capital of the World Bank and the regional development finance institutions should have a sizable increase". The heads of state of seven major developed countries and the President of the European Community also addressed the Bank's capital requirements in the communique issued at the conclusion of their meeting in London on May 8th. They expressed support for the World Bank and stated that its general resources "should be increased sufficiently to permit its lending to rise in real terms".

In view of these developments it would seem desirable for the Executive Directors to consider at an early date the specific features of a capital increase for the Bank which would be adequate to support the lending objectives endorsed by both its developing and developed member countries. Particular attention might be paid to the terms, conditions and timing of a General Capital Increase as set out in Sections 6 and 7 of the January 31st memorandum on the "Future Role of the World Bank". The timing of these discussions can be flexible, to suit the convenience of the Directors. One set of dates which could be considered would be to begin on July 7th with a discussion of the frequency of future capital increases for the IBRD and of the interpretation to be given to the notion of "non-disruptive adjustment" in planning for future capital increases. Consideration of the topics raised in Section 6, leading to a tentative conclusion regarding the amount of the increase, would then continue on July 12th with a discussion of the planning assumptions to be used with respect to inflation and the repayment terms for future IBRD loans. On July 14th, the issue of voting rights and Board representation for the developing countries could then be taken up. It would be understood that discussions on each of these topics would continue until the views of all member countries had been fully stated and explored. Discussions of other relevant issues raised in the "Future Role of the World Bank" paper could commence immediately after the Annual Meeting against the background of what would then hopefully be an emerging consensus on the terms, conditions and timing of a specific capital increase for the IBRD.

OFFICE MEMORANDUM

. TO: Files

DATE: May 5, 1977

FROM: David Bock, P & B

SUBJECT: US Treasury Requests for Financial Projections

- 1. On April 28th, Joe Wood and I met with Hal Reynolds and two representatives of the U.S. Treasury: Dick Erederick and Bill Thomson. Peggy Gonzales was also present. The purpose of the meeting was to discuss the Treasury's request for information about IBRD finances. We had previously responded in part to the Treasury's requests (see Joe Wood's memorandum to files of April 27) and gave them two additional pieces of information at the meeting. These were: (a) a table showing IBRD financial indicators under various assumptions as requested in Mr. Thomson's memorandum of April 20th (copies attached); and (b) a graph of some of the information we had previously provided (copy attached).
- 2. The meeting was mainly taken up with a discussion of some of the technical details of the Bank's finances. Neither Mr. Frederick nor Mr. Thomson seemed terribly familiar with the financial policies and structure of the Bank. They indicated that they were attempting to put the basic analyses and information in place in preparation for negotiations on the General Capital Increase. Mr. Frederick also stated that the overall study of the U.S. relationships to the IFIs would be carried out by a separate group in the Treasury.
- 3. We also went over the remaining items of information that had been requested. Most of these are nearly complete and will be sent to Mr. Reynolds in the next few days. These include:
 - a. Breakdown of lending between poorest and middle-income countries.
 - Cash flow effects of shorter maturities for middleincome countries.
 - c. Average and marginal interest rates on loans, borrowings, equity and liquid holdings.
 - d. Historical information on cofinancing.
- 4. The Treasury staff agreed not to press for a breakdown of IBRD borrowings by market and maturity from 1980 to 1995. We also pursuaded them that it was impossible for us to estimate the potential for commercial bank cofinancing.
- 5. With regard to potential IBRD financing of energy and mineral development, we told them that this would be provided in the so-called "Goodman Paper" on the International Resources Bank.

Attachments

cc: Messrs. McNamara, Knapp Cargill/Goodman, Stern, Gabriel, Adler, Wood

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UNITED STATES GOVERNMENT

Mr. Hal Reynolds TO Richard Frederick

William Thomson Aspa FROM :

Department of the Treasury Washington, D.C. 20220

1 - Alt. Executive Director 2 - Permanent Office Cary

DATE: April 20 -121/77

SUBJECT:

Information Required from World Bank for Capital Increase Study

In order to follow-up the previous request to the World Bank it is now appropriate to consider some individual cases in more depth. However, before pursuing these requests we would like results similar to those contained in Mr. Wood's memorandum of April 12, 1977 for a \$40 billion capital increase.

This information will allow us to define the outerboundaries of how long the capital increase will last, until the Article III constraint is met.

Financial indicator projections

The Bank's financial indicators over time are now sought including:

- IBRD: Net Income, Reserves, Reserves/Disbursed Loans, 1. Usable Equity, Usable Equity/Disbursed Loans, Interest-Coverage Ratio.
- 2. IBRD: Lending rate, Average interest rate on disbursed loans, average total cost of funded debt, average cost of new borrowings, average return on investment.

The information is required for the following representative capital increases, using the basic 5% real growth in lending.

- \$10 billion with 10% paid-in capital
- 2.
- \$30 billion with 16% paid-in capital \$30 billion with 0% paid-in capital 3.
- \$40 billion with 0% paid in capital



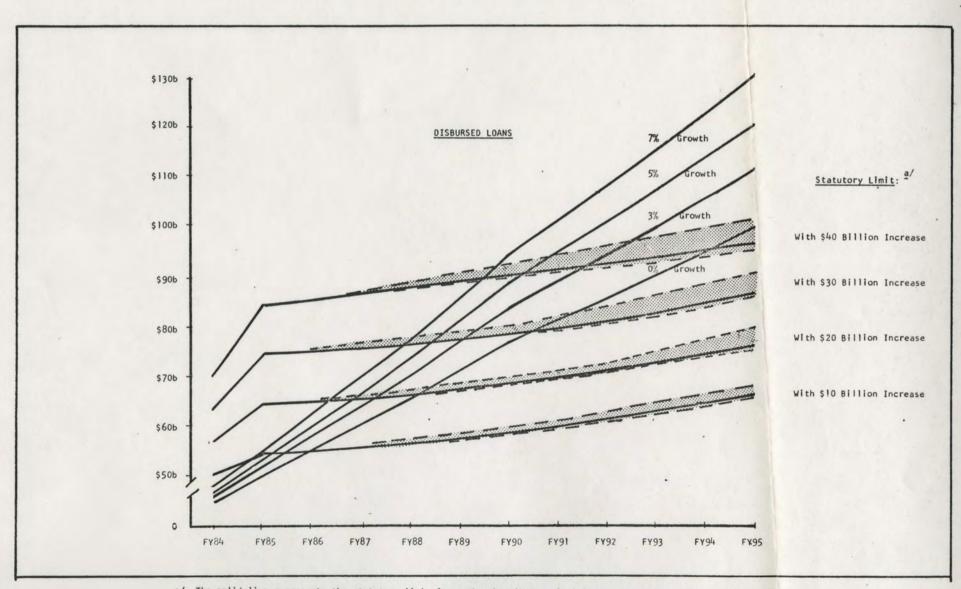


Financial Indicator Projections (millions and %)

		FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
Basic Assumptions																	
I	ending Rate	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
(lost of New Borrowing	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
I	leturn on Investments	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.85	7.35	7.85	7.85
- 1	vg. Interest Rate on Disb. Loans	7.66	7.90	8.14	8.40	8.55	8.60	8.73	8.78	8.85	8.88	8.93	8.95	8.99	9.00	9.00	9.00
I	vg. Cost of Funded Debt	7.90	8.01	8.14	8.28	8.36	8.40	8.42	8.45	8.45	8.46	8.47	8.49	8.49	8.50	8.50	8.50
A1t	ernative Capital Increases																
A.	\$10 billion, 10% paid-in												1000	1300			444
	Net Income	371	418	462	527	582	673	757	826	931	1016	1134	1226	1350	1575	1649	1801
	Reserves	2842	, 3159	3522	3949	4431	5004	5661	. 6387	7218	8134	9168	10294	11544	12949	14498	16199
	Usable Equity	6196	6513	6875	7536	8251	9058	9715	10441	11272	12188	13222	14348	15598	170)3	18552	20253
	Interest Coverage Ratio	1.18	1.17	1.16	1.16	1.15	1.15	1.15	1.14	1,14	1.14	1.14	1.13	1.13	1.13	1.12	1.12
	Reserves/Disb. Loans	10.8	10.3	9.9	9.7	9.5	9.4	9.3	9.4	9.4	9.5	9.5	9.6	9.6	9.5	9.5	9.5
	Usable Equity/Disb. Loans	23.6	21.2	19.4	18.5	17.7	17.0	16.0	15.3	14.7	14.2	13.7	13.3	12.9	12.5	12.2	11.9
В.	\$30 billion, 10% paid-in	-	100		202		444	7			2022		2	sodie.		1122	1000
	Net Income	371	418	462	548	646	783	898	937	1098	1198	1332	1442	1585	1760	1927	2104
	Reserves	2842	3159	3521	3969	4516	5199	5997	6877	7874	8972	10204	11546	13031	14691	16518	18522
	Usable Equity	6196	6513	6875	8023	9270	10653	11451	12331	13328	14426	15658	17000	18485	20145	21972	23976
	Interest Coverage Ratio	1.18	1.17	1.16	1.16	1.17	1.18	1.18	1.18	1.17	1.17	1.17	1.16	1.15	1.15	1.15	1.14
	Reserves/Disb. Loans	10.8	10.3	9.9	9.8	9.7	9.7	9.8	10.1	10.3	10.4	10.6	10.7	10.8	10.8	10.9	10.9
	Usable Equity/Disb. Loans	23.6	21.2	19.4	19.7	19.9	20.0	18.9	18.1	17.4	16.8	16.3	15.8	15.3	14.9	14.5	14.1
C.	\$30-40 billion, 0% paid-in																
	Net Income	371	418	462	517	550	617	687	750	848	925	1035	1118	1232	1377	1510	1649
	Reserves	2842	3159	3521	3939	4389	4907	5493	6143	6890	7716	8651	9669	10801	12078	13488	15037
	Usable Equity	6196	6513	6875	7293	.7743	8261	8847	9497	10244	11070	12005	13023	14155	15432	16842	18391
	Interest Coverage Ratio	1.18	1.17	1.16	1.15	1.14	1.14	1.13	1.13	1.13	1.13	1.12	1.12	1.12	1.12	1.11	1.11
	Reserves/Disb. Loans	10.8	10.3	9.9	9.7	9.4	9.2	9.1	9.0	9.0	9.0	9.0	9.0	8.9	8.9	8.8	8.8
	Usable Equity/Disb. Loans	23.6	21.2	19.4	17.9	16.5	15.5	14.6	13.9	13.4	12.9	12.5	12.1	11.7	11.4	11.0	10.7

P & B 4/28/77

RELATIONSHIP OF DISBURSED LOANS AND STATUTORY LIMIT UNDER ALTERNATIVE ASSUMPTIONS: FY84-95



a/ The solid line represents the statutory limit for each subscribed capital increase assuming a 5% real growth in lending and that 0% of the increase is paid-in. The upper boundary in each case assumes 10% of the increase is paid-in, about 70% of which is usable for lending by the Bank. The lower boundary assumes 0% paid-in and 3% real growth is local.