WHORM Subject File Code: IT023 (International Bank for Reconstruction + Development)
Case file Number(s): 350000-360820

WITHDRAWAL SHEET
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File Folder: IT023 (~~340000 - 360820~~) 350000-360820 **Date:** February 14, 1997

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. memo (349572)~~	~~Pat Buchanan to the Secretary of the Treasure re comments re 1985 Joint Annual Meetings of the World Bank and IMF in Seoul (3 pp.)~~	~~10/14/85~~	~~P5~~
2. memo (353575)	Alfred Kingon to Donald T. Regan re conversation with Eugene Rotberg (p.2, only)	12/9/85	~~P5, P6~~ ~~B6~~ open dlr 4/11/14
3. memo (353575)	original of item #2 (p. 2, only)	12/9/85	~~P5, P6~~ ~~B6~~ open dlr 4/11/14
4. memo (356141)	Pat Buchanan to Chief of Staff re potential IMF candidate (1 pp.)	3/1/86	~~P6~~ B6

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
P-1 National security classified information [(a)(1) of the PRA].
P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
P-3 Release would violate a Federal statute [(a)(3) of the PRA].
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]
F-1 National security classified information [(b)(1) of the FOIA].
F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
F-3 Release would violate a Federal statue [(b)(3) of the FOIA].
F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

353575
IT023
FG006-01

THE WHITE HOUSE

WASHINGTON

December 9, 1985

MEMROANDUM FOR DONALD T. REGAN

FROM: ALFRED H. KINGON

SUBJECT: Conversation with Eugene Rotberg

I spoke at considerable length with Eugene Rotberg at the World Bank to discuss the kind of candidate we need~~,~~ and along with his specific recommendations for the World Bank presidency.

Most of the discussion concerned the kind of person we should select. Summarizing his concerns, he believes that the person we select should be someone who is extremely skilled, effective, has wisdom and commitment. The job is not the same as it was fifteen -- or even five -- years ago. It was alright then to put a retired executive in place. But now the person who holds that job is in an extremely sensitive and important position.

Unlike Cabinet Departments and major agencies wherein there is a bureaucracy that can slow a Secretary down, the president of the Bank, Rotberg contends, is all powerful and in full control.

It is obvious to us all that the new president will be coming into a politically explosive situation.

The less developed nations are engulfed in rising expectations for growth and higher standards of living, and, they are flirting with the idea of just not paying their debts to the Western banks.

It is pretty well agreed, according to Rotberg, a wave of protectionism, or high interest rates, or a recession will destabilize not only the financial system but the geo-political/military system as well.

The job calls for someone who knows the way the world works and can effectively deal with it. Rotberg used the terms "enlightened," "someone who knows how the world works," and "someone committed to solving problems" many times.

What we cannot afford is a retired executive who is saying to himself, "I'm now x years old, this is the pinnacle of my career and I can now talk to the heads of state". In that regard, Rotberg felt that McNamara was the right person for the job in that time ("he thinks in global terms") and that Clausen was and is not suitable.

His candidates were as follows:

1. Paul Volcker. He thinks Volcker would be more powerful and could do more "good" at the Bank. Because of his reputation he is probably the only person that can get private banks to lend more when necessary.

2. Walt Wriston. Although he is 65-ish, he has the brains and the ability to get the job done. The situation is too critical for a second rater and Wriston fulfills Rotberg's requirements.

3. He likes Dennis Weatherstoneof Morgan Guaranty. He thinks he has the necessary intellect and capacity for the job.

   He also admires Lew Preston, Weatherstone's boss, and thinks he would adequately fill the bill.

4. He is high on Jim Robinson of AMEX. He has the intellect and global understanding of conditions that are required.

Other candidates that he mentioned were:

5. Pete Peterson. "He would be terrific if it weren't for his personality and his ego."

6. Bill Simon. He is a bully and egocentric but he is tough enough.

Rotberg was negative on Dick Debs and John Petty.

Rotberg pointed out that the Bank has over 2000 Ph.D.s who can talk intelligently on every country in the world and give cogent recommendations on how to solve the problems. The president of the Bank must be able to deal with these people.

Finally, at my questioning as to why he had omitted John Whitehead, Rotberg thought Whitehead would be splendid but he, like I, had had the benefit of some private conversations with John who has told each of us that he is very happy where he is.

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Tued

THE WHITE HOUSE

WASHINGTON

December 9, 1985

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12/13 OK per Chew
354812SS

IT023

Received
1985 DEC 13

PE002-01

THE WHITE HOUSE

WASHINGTON

December 13, 1985

WS

MEMORANDUM FOR RON GEISLER

FROM: ROBERT H. TUTTLE

SUBJECT: PAS Nomination

The President has approved the nominaton of the following individual:

HUGH W. FOSTER, of California, to be United States Alternate Executive Director of the International Bank for Reconstruction and Development for a term of two years. This is a reappointment.

All necessary clearances have been completed.
Please prepare the nomination papers.

Announced: 12/13/85

To Senate: 12/13/85

NOTED

To DC - 12/13/85
12:45 PM

THE WHITE HOUSE

WASHINGTON

December 12, 1985

MEMORANDUM FOR DAVID CHEW

FROM: ROBERT H. TUTTLE

SUBJECT: Personnel Announcements

The following Personnel Announcement is scheduled for release Friday, December 13, 1985. According to our records, all necessary clearance have been completed. Please arrange with the Press Office of the President's intent to nominate/appoint the following individuals:

FRIDAY, DECEMBER 13, 1985

(R)	HUGH W. FOSTER (of California)	To be United States Alternate Executive Director ~~Of~~ the ~~World Bank~~ I.B.R.D. for a term of two years. ~~This is a~~ (reappointment) (PAS)
(R)	MICHAEL A. SAMUELS (of the District of Columbia)	To be A Deputy United States Trade Representative, with the Rank of Ambassador, vice Peter OTTO Murphy. (PAS)
-	JAMES L. MALONE (of Virginia)	To be Ambassador Extraordinary and Plentipotentiary of the United States of America to Belize. Vice Malcolm R. BarneBey. (PAS)
(R)	HEATHER ~~JANE STIRTON~~ J. GRADISON (of Ohio)	To be DESIGNATED Chairman of the Interstate Commerce Commission. vice Reese H. Taylor, JR. (PAS)

cc: Kennedy
Holland
Geisler

Nbr. 6/17/82

Announced: 12/13/85

rry

THE WHITE HOUSE
WASHINGTON

December 12, 1985

NOTE FOR LARRY SPEAKES

We have double-checked this with Legislative Affairs and Counsel. This is ready for review at the 8:00 operations meeting.

David L. Chew

OK per Diana
ok per Margie

HITE HOUSE
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Received S S
1985 DEC 12 PM 4: 29

er 12, 1985

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intent to nominate/appoint the

	To be United States Alternate Executive Director for the ~~World~~ International Bank for Reconstruction and Development for a term of two years. This is a reappointment. (PAS)
MICHAEL A. SAMUELS (of the District of Columbia)	To be Deputy United States Trade Representative with the Rank of Ambassador. Vice Peter O. Murphy. (PAS)
JAMES L. MALONE (of Virginia)	To be Ambassador Extraordinary and Plentipotentiary of the United States of America to Belize. Vice Malcolm R. Barneney. (PAS)
HEATHER ~~JANE STIRTON~~ GRADISON (of Ohio)	To be designated Chairman of the Interstate Commerce Commission, vice Reese Taylor. (PAS)

cc: Kennedy
Holland
Geisler

OK per Diana
ok per Margie

THE WHITE HOUSE

WASHINGTON

Received SS

1985 DEC 12 PM 4: 29

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HEATHER ~~JANE STIRTON~~ GRADISON (of Ohio)	To be designated Chairman of the Interstate Commerce Commission, vice Reese Taylor. (PAS)

cc: Kennedy
Holland
Geisler

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release December 13, 1985

The President today announced his intention to nominate Hugh W. Foster of California to be United States Alternate Executive Director of the International Bank for Reconstruction and Development for a term of two years. This is a reappointment.

Mr. Foster has been serving in this position since October, 1983, and prior to that he served as Alternate Executive Director for the U.S. Inter-American Development Bank; 1982-83. He was associated with the Wells Fargo Bank in San Francisco, California, where he last served as vice president and area manager of the bank's Asia Pacific division. Previously, he served as vice president and area manager in Mexico City in 1977-80; vice president and area manager, China Sea area, in 1975-77; and assistant vice president and area manager, Australasia area, in 1974-75. He has held other positions with Wells Fargo Bank since 1969.

Mr. Foster graduated from Colgate University (A.B., 1965) and Stanford University Graduate School of Business (M.B.A., 1969). He is married, has five children, and resides in Washington, D.C. He was born December 13, 1943, in Baltimore, Maryland.

# # #

IT023 356141

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 4 LISTED ON THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

RBB

35665255

IT023

PE002-01

THE WHITE HOUSE

WASHINGTON

Received SS

1986 APR 11 PM 2:29

April 11, 1986

MEMORANDUM FOR RON GEISLER

FROM: ROBERT H. TUTTLE RT

SUBJECT: PAS Nomination

The President approved the nomination of the following individual:

ROBERT BRENDON KEATING, of the District of Columbia, to be United States Executive Director of the International Bank for Reconstruction and Development for a term of two years, vice James B. Burnham, resigned.

All necessary clearances have been completed.

Please prepare the nomination papers.

Announced 4/11/86

To Senate 4/14/86

NOTED

To DC – 4/11/86
2:20 PM

April 10, 1986

MEMROANDUM FOR DAVID CHEW

FROM: ROBERT H. TUTTLE

SUBJECT: Personnel Announcements

The following Personnel Announcements are scheduled for release Friday, April 11, 1986. According to our records, all necessary clearances have been completed. Please arrange with the Press Office the President's intent to appoint/nominate the following individuals:

FRIDAY, APRIL 11, 1986

(R) ROBERT B. ~~K~~ RENDON KEATING (of the District of Columbia) IS CURRENTLY AMB. TO COMOROS & MADAGASCAR.	To be United States Executive Director of the International Bank for Reconstruction and Development for a term of two years, vice James B. Burnham resigned. (PAS)
~~LILLA BURT CUMMINGS TOWER (of Texas)~~	~~To be a Member of the Board for International Broadcasting for a term expiring 5/2/89, vice Frank Shakespeare. (PAS)~~

HOLD RHW PJW

HOLD IS OFF TBA 4/11/86

cc: Kennedy
Holland
Geisler

Announced: 4/11/86

4/10 OK per Jane
OK per Diana

THE WHITE HOUSE

WASHINGTON

Received S S
1986 APR 10 PM 2:56

April 10, 1986

MEMROANDUM FOR DAVID CHEW

FROM: ROBERT H. TUTTLE RT

SUBJECT: Personnel Announcements

The following Personnel Announcements are scheduled for release Friday, April 11, 1986. According to our records, all necessary clearances have been completed. Please arrange with the Press Office the President's intent to appoint/nominate the following individuals:

FRIDAY, APRIL 11, 1986

ROBERT BRENDON KEATING (of the District of Columbia)	To be United States Executive Director of the International Bank for Reconstruction and Development for a term of two years, vice James B. Burnham resigned. (PAS)
~~LILLA BURT CUMMINGS TOWER (of Texas)~~	~~To be a Member of the Board for International Broadcasting for the remainder of a term expiring 5/20/86, vice Frank Shakespeare, and for a term expiring 5/20/89, reappointment. (PAS)~~

Hold per Counsel

Hold lifted on Tower per Chew/Wallison

cc: Kennedy
Holland
Geisler

THE WHITE HOUSE
WASHINGTON

April 10, 1986

NOTE FOR LARRY SPEAKES

We have double-checked this with Legislative Affairs and Counsel. This is ready for review at the 8:00 operations meeting.

David L. Chew

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 11, 1986

The President today announced his intention to nominate Robert Brendon Keating to be United States Executive Director of the International Bank for Reconstruction and Development for a term of two years. He would succeed James B. Burnham.

Since 1983, he has been serving as United States Ambassador to the Democratic Republic of Madagascar and the Federal Islamic Republic of the Comoros. He also served as Chairman of the President's Third World Hunger Study in 1983-1984. He was United States Delegate to the Law of the Sea Conference and Technical Director for the Law of the Sea Treaty Review in 1981-1982. He was a consultant in International Security Affairs in the Office of the Secretary of Defense in 1981-1983. He served as Vice President of Pure Water Systems, Inc., in 1979-1981.

Ambassador Keating graduated from the United States Naval Academy (B.S., 1946) and Georgetown University (M.E.A., 1961). He is married, has one child and resides in Washington, D.C. He was born May 7, 1924 in Medford, Massachusetts.

# # #

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

EUGENE H. ROTBERG
Vice President & Treasurer

CJ

November 8, 1985

Mr. Don Regan
Chief of Staff
The White House
1600 Pennsylvania Avenue N.W.
Washington D.C. 20500

Dear Don:

You might be interested in the attached speech -- particularly the middle sections. As you know better than anyone, we have neither the capacity nor the mandate to prevent world financial crises. The banks got themselves into this; we cannot be expected to get them out of it. Please keep in touch.

Kindest regards.

Gene

EUGENE H. ROTBERG

Vice President and Treasurer

The World Bank

Seoul, Korea, October 1985

Ladies and Gentlemen. During a week of many meetings and speeches and lunches, I was indeed honored when Charles Villiers told me of the many friends and colleagues who would be attending the County Bank luncheon today. I would like to discuss with you -- hopefully, in a more candid way than is possible at the podium of plenary meetings -- the issue with which many of us are grappling this week: The role of the World Bank in developing countries, as we begin the 4th year of what is called the LDC debt crisis (which we began to face together in Toronto). Allow me to start with a fable.

In this fable there is a holy man who lives a saintly life amongst people who are sinners. Finally, there comes a day when God cannot bear the evil and he decides to begin a rain that will create much flooding and destruction. But before the rain begins, he visits a pious man and assures him that his faith will see him through the impending crisis. The rain begins and the pious man is in his house with rising water when a rowboat comes past his window and the people in it offer their help. He declines and looks up to heaven. The water becomes so high that he leaves his house and is standing waist high outside when another rowboat comes by and again, confident he will be saved, he refuses safety again. Finally, just before he goes under, there is another boat and another refusal of assistance. The man drowns. And, of course, he goes to heaven where angels meet him with great surprise and say: "What are you doing here? We sent three boats."

* * *

If you will forgive the metaphor, let me say that there is no magic in what the World Bank does or can do for either commercial banks or LDCs. What we try to do is send in the boats. In other words, we seek practical solutions that depend on people doing what is in their enlightened self-interest.

But perhaps I might talk first about our clients, including the IDA countries who, of course, do not have the income levels that would permit them access to IBRD resources.

For the poorest 2.3 billion people in the world (35 countries), their average Gross National Product in 1984 was $260 per year.

For the richest 18 industrialized countries with a population of 730 million people, the average per capita GNP was $11,000.

The annual consumption per capita of energy for the poorest 2.3 billion people is 276 kilograms of oil equivalent. For the industrialized countries, it is 4,700 kilograms of oil equivalent. Annual energy consumption in Zaire is 77 kilograms; Indonesia 200; 3,500 in France.

In a score of countries in the world, less than 2% of married women of child bearing age use contraceptives. That compares to about 75% in industrialized countries.

Seventy-five children out of 1,000 born die under the age of one in the 35 poorest countries of the world. For industrialized countries, 10 die under the age of one out of each 1,000 that are born. The death rate for children up to the age of 4 in sub-saharan Africa is 25 times as great as in Italy or Austria. The death rate in Pakistan for children up to the age of one is 10 times that of Spain.

In some countries in Africa, there is one doctor for every 40-50,000 people. There is one doctor for every 23,000 persons in the poorest 35 countries, excluding India or China. One doctor for every 2,000 for upper middle income countries; one doctor for every 550 persons in industrialized countries.

Access to safe water to drink is not available to two-thirds of the entire developing world's rural population. For sub-saharan Africa, the figure is 80-90%.

The caloric intake in the industrialized countries is 40% higher than the poorest countries. Yet, for the poorest countries, 36% of their GDP comes from agriculture. For the richest, only 3% is committed to agriculture.

In low income countries, only 30% of the population is enrolled in a secondary school; for middle income countries the figure is 42%; in industrialized countries 86% are enrolled in secondary schools. Only about half of Latin America's young people are enrolled in a secondary school. Only about half of the females in sub-saharan Africa are enrolled in a <u>primary</u> school.

The percentage in higher education is 4% for the lowest income countries and 47% for the highest income countries.

Sweden and Madagascar have similar size populations and geographical area. Sweden's GNP per capita is 12,470; Madagascar's is 310. At birth, Sweden's life expectancy is 79; Madagascar's 49.

Population growth of sub-saharan Africa is 3% a year. It is .4% a year in industrial countries.

The population of the world in 1985 is over 5.1 billion people. In the year 2000 it will be almost 7 billion. Almost half of the increase in population will come from countries whose per capita income is now below $400 per year. Large cities are doubling in size every decade. Twenty-five years ago there were 16 cities in poor countries with populations of 1 million. In 25 years there will be 200.

In India, the labor force will grow by 177 million people in the 17 years from 1983-2000. That incremental growth is approximately equal to the total labor force of the US in 1983.

Often when we speak of poverty from a public podium, we speak of the self-interest of the rich in improving the lot of the poor, as if we assume too much to let the figures -- unacceptable as they are in human terms -- speak for themselves, in terms which support the necessity of a meaningful response. Let me say straight out that I think morality is a sufficient, but not a necessary condition for us to support economic development. Our self-interest should lead us to the same conclusion for several reasons.

First, LDCs are under great political pressure and will be under increasing pressure to limit the negative transfers from poor to rich, from them to us, which is now occurring. Their negotiations with us cannot be perceived domestically in <u>their</u> countries as less tough than their neighboring countries. The fact is the developing world knows that the annual increased lending from banks does not approach the interest they pay out. That is not a sustainable situation for them or us. Second, our financial institutions, pressured by regulatory agencies and stockholders, and given the alternative investment opportunities and the lessons from past experience, are reluctant to lend more. Given things as they stand now, I cannot believe their increased lending (exposure) will reach half of the interest now paid on outstanding loans. Third, given the interdependence of economies between the developed and underdeveloped world, a lack of new funds means minimal or negative growth, leading in turn to a contraction of trade and an inability of indebted countries to earn the dollars needed to service debt - a problem yet further compounded by protectionist measures which defeat their export potential and capacity to earn dollars.

A pity and waste particularly since protectionism is counterproductive, and so unnecessary, self-defeating and unworkable. I say unworkable because (1) there are many in this room, and throughout the industrialized world, who will find it against their own best interests; (2) counterproductive because it is inflationary and keeps the inefficient in subsidized business; (3) self-defeating because it puts off retraining and re-educating; (4) it misallocates resources domestically; and (5) it dries up world markets and trade and will therefore make it impossible for LDC's to service debt. In short, it simply doesn't make sense.

But the subject of protectionism is a whole other story. Permit me to make another point. I refer to the old standby, which is that economic development is necessary for political stability. We also say so, but we also recognize that political economy is more complicated. For the truth is that economic development can be a destabilizing phenomenon itself, that countries may go through a variety of stages in their political development as they cope with rising expectations and increased demands on the government. So perhaps we can be more precise. While there is no single recipe for political stability, there is, however, an open invitation to instability, if we cut off hope in a lifetime, let people think their children will have no more than they have, freeze privilege and opportunity in small pockets of the society. Then, most assuredly, we will have unstable regimes and unliberal political outcomes.

Given the problems, the facts and their implications for the developed and the developing world, why have we - the World Bank - not lent more? Our lending essentially has remained the same for 2-3 years.

Indeed, in our recently concluded fiscal year, World Bank lending, for the first time for many years, declined slightly in nominal terms. Why?

First, some countries could not supply their share of the local costs for projects. They were constraining their growth and allocating resources -- tightening up. We certainly could not force them to borrow.

Second, some countries could not prudently take on additional debt given their prospects for earning foreign exchange and their GNP/debt service ratios. For some countries, half of their export earnings were committed to pay interest and the balance for oil. There was simply no room for more debt.

Others could not accept, as a practical matter the "constraints", or the advice of the Bank with respect to their medium/long-term development programs. These involved some painful measures and some countries did not have in place the administrative will or capacity to implement what we believed had to be done.

Others had weak economic plans; on our part, we did not believe it appropriate to lend, given their creditworthiness.

A few had other sources of finance believed to be less costly or, more often, without the conditions and time lags associated with World Bank loans.

But these are answers, not explanations. The issue remains: should not the Bank have changed its standards; should it now change the way it does its business, change its role, move in, fill the gap, do what the commercial banks did in the 1970s? That is the debate which is occupying policy makers and is attracting public comment.

To put the matter in some perspective, it may be useful to recollect the environment in the 1970s.

Banks were told to "recycle". Virtually every government asked banks to do their part to supply the funds necessary to permit growth during a period when LDCs were subject to great shocks, not of their doing - high interest rates, explosive costs of energy; deterioration in their terms of trade and a worldwide recession which collapsed commodity prices. But what were the dynamics of the bank lending - of the risk taking by the industrialized world's financial institutions?

(a) Blame can be shared. Governments are pressuring us.

(b) Divided responsibility: London v. New York.

(c) Banking v. Investment Banking competition. A place in the sun.

(d) What else to do with OPEC deposits? Buy US Treasury Bonds? At 2% less than the prevailing deposit rate?

(e) No previous pain. All "foreign" debts in recent memory were serviced.

(f) Herd instinct -- market share; Japanese banks were moving in.

(g) Excellent rewards. Locked in spreads. New offices in London. A chance to compete.

(h) Present pleasure -- future pain, perhaps. But for the moment excellent returns on shrinking capital bases.

(i) Spin off risks -- syndicate loans to others.

(j) Good trade financing experience.

(k) Finally -- the dread factor -- the loss potential was so severe, (should anything go "wrong") given the magnitude of the lending, all countries were deemed creditworthy -- whatever the exposure. The bottom line: central banks would always be there as a lender of last resort.

And so banks lent, with little concern or attention, as we can now admit, as to the uses of the funds, the borrowers strategy for growth, the extent to which the resources were expended wisely, and less yet to occasional voices from both public and private sources which urged caution.

We, at the World Bank, are now asked, sometimes rhetorically, sometimes not, to join in. To lend. To do our share, to expand our role and act as a catalyst. And we will. But the question is: in what manner and to what end?

The code words are catalyst, lynch pin, "the only game in town", flexibility and innovative. The code words, however, are rarely linked to the comparative advantage of the institution. Rarer still is a technical knowledge of the financial structure of our institution, an assessment of risks and benefits and the implications for a particular initiative. In short, the <u>method</u> by which we are asked to respond sometimes gets lost in the rounding and obscured in the reaction to implicit adverse criticism; e.g., "what is the Bank doing?" But none, I am sure, believe that we should repeat the mistakes of the past, or one way or another, take on the burdens or responsibilities of the world's financial system.

After all, we don't have taxing power, or more than modest "official" funds. We are not a deposit taking institution. We have no inter-bank funding. We cannot call on central banks to provide us with liquidity as a lender of last resort. We do not have a deposit base. In short, we do not fund ourselves like a bank nor do we have in place the safety nets available to commercial financial intermediaries.

Even those commercial banks which have great amounts at stake know that World Bank lending for the purpose of providing quick cash transfers, neither targeted nor escrowed, and absent a clear monitorable development plan - to facilitate debt servicing to them would not be a wise path for the World Bank. They understand, to their credit, and based on painful experience that, unconstructive actions only rarely buy time: they usually make things worse.

And even those banks who want short term bail-outs whatever the economic rationale for the country involved, must know that there are fundamental obstacles. For the fact is that the financial markets in which the Bank operates would not take well to the idea that directly or indirectly we would provide cash transfers not linked to a realistic development program so that indebted countries might meet their obligations to commercial banks -- even if it were explained to them that that it is all in the public good since it might provide a catalytic movement to trigger new flows. And indeed, no government has suggested that we do so.

The fact is that commercial banks, over time, will probably be asked to increase their exposure by lending new funds in amounts approaching the interest rate burden. I do not believe they will readily do so.

What is our role, then, in the process? The Bank has developed credibility -- great expertise, in the appraisal, supervision of projects and the quality of the development dialogue, -- areas hardly touched by the private sector. We will use our scarce and shrinking legal power to increase our lending by providing resources and advice, and not use it to facilitate or discourage regulatory or market penalties on those who would like to point only to the receipt of interest payments as evidence of the quality of their portfolios, or to provide a comfortable exit for others who would like to constrain their lending, or even to satisfy pressures within governments to move to a "new stage" in the debt crisis. There are no new stages. There has been progress based on cooperation and effort of all the parties involved. And fatigue is not a reason to move backwards. In short, World Bank balance of payments loans, unaccompanied by a strict and verifiable medium/long term development program, and without a meaningful increase in commercial bank exposure, is not in the cards. It would not be an efficient use of our capacity, skill and expertise. Nor would it be supported by governments, and in any event, would be a response of superficial convenience and one which the markets in which we borrow money would not find appropriate or acceptable.

While it is true that we are staffed by well motivated professionals who want to participate and solve problems, they, I am sure, are not so unrealistic as to believe that it is in their capacity, like magic, to make the troublesome loans go away. While it is beguiling to respond to present pleasure for future pain; to do our part, -- have a place in the sun -- maintain market share, increase visibility, be a major player in the process, they know, as you and I do -- they remember, the lack of care and discipline of earlier years. They are professionals, proud of their work and the value of their advice. They do not look upon themselves as either printing press operatives or automatic teller machines.

However, I ask you not to assume that the Bank can do little and has done little. We have been a remarkably leveraged and effective institution. Let me share with you some reality testimony of a more positive kind.

<u>What have we done to date?</u>

By 1968, the World Bank had received paid-in capital from member governments of $1.8 billion. Its cumulative disbursements through 1968, made since 1946 - when it began operations, stood at $8 billion. It had made loan commitments of about $11 billion through 1968.

By July 1985, paid-in capital from members had increased from $1.8 billion to $3.2 billion. The Bank, however, during that period, had disbursed about $68 billion; loan commitments were in excess of $113 billion. Thus it had leveraged a$1.4 billion increase in paid-in capital from governments over the 17 years, 1968-85, to lend over $100 billion and to disburse over $60 billion.

The World Bank annual compound growth rate of loan commitments in the 10 year period 1974-1984 was 12%.

The Bank plans, over the next three years, to make new loan commitments between $40-45 billion.

Disbursements in the five year period 1986-1990 are today projected at $60 billion, repayments of principal are estimated at $27 billion, for net disbursements of $33 billion to LDCs.

Our share of <u>new funds</u>, to be made available to LDCs from all sources over the next five years, is substantial. Permit me to list a group of countries and the IBRD percentage of the range of the <u>increase</u> in resources which are expected to be externally borrowed by those countries over the next five years. The percentages are not in the same order as the countries, for reasons of discretion and of course the uncertainty as to how much the commercial banks will in fact lend.

For Indonesia, Turkey, the Philippines, India, Thailand, Colombia, Romania, Morocco, Ivory Coast, Kenya, Nigeria, Egypt, Argentina, Pakistan, the Bank will lend between 13% to 62% of their incremental net borrowings over the next 5 years.

The IBRD percentage of 1990 projected disbursed and outstanding external debt for these same countries will average 20%.

I think it is fair to say that what we have done and what we expect to do is substantial both in terms of leverage, absolute amounts, and as a percentage of future flows.

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In 1968 the World Bank had $3.2 billion of outstanding debt. In 1985 its outstanding indebtedness stood at $51 billion.

Thus, we have financed and will continue to finance our lending by borrowings in private capital markets at market rates of interest. Not from government contributions.

We have borrowed over $80 billion in capital markets throughout the world since 1968. We will have borrowed $140 billion by 1995. And we will lend it. We are currently borrowing at the lowest spreads over government obligations in our history. We borrow from institutions who are fully conversant with our financial and operating history. We expect to borrow on average about $12-13 billion a year over the next five years. We borrow, in short, from institutions who are prepared to trust us for a long time with their money -- some issues are perpetual; others for 99 years, many for 10-20 years.

Basically the financial market support comes from a recognition of the quality of the Bank's lending activities - projects, structural adjustment lending and sectoral lending; from a recognition of the objectivity of the Bank and from a recognition of the quality of the development dialogue between the Bank and its borrowers. It comes from a recognition that we target resources in a "non-political" way. And it comes from an awareness of the care and attention given to appraisal and supervision of loans. And from a recognition of the importance of a wide variety of financial, technical and advisory interventions by the Bank.

What then is needed? We simply need the legal right to lend more for projects and for sectors and for structural adjustment - that is an increase in the Bank's capital.

The Bank does not need a subsidy from its member governments or any credit enhancement. Nor does it need, as a financial matter, increased money in the form of paid-in capital. The constraint to increased lending essentially is a legal one . The Articles of Agreement of the Bank do not permit the Bank to have outstanding loans and guarantees greater than the sum of its paid-in capital, callable capital and retained earnings (reserves): $1 of capital for

$1 of loans and guarantees. That binding constraint is the cornerstone of the Bank's risk taking capacity -- incorporated in the Bank's Articles of Agreement. And of course guarantees count against our capital just like loans.

The Bank's callable capital may never be called to operate the Bank. It may never be called to pay administrative expenses or to make disbursements on loan commitments to LDCs already made or to be made. It can only be called in one event -- namely, if the Bank cannot meet from its own resources its obligations to its creditors and to those who hold its guarantees. Thus the callable capital in effect can only be called in connection with the winding up or the insolvency of the institution. Obviously it has never been called. The stockholders of the Bank have insisted on policies -- both financial and operational -- to assure (to the extent that wisdom and care can provide assurance) that the Bank is operated with good judgement and an awareness of risk -- with the expectation that the callable capital -- the contingent liability -- will never have to be called.

The issue then is whether governments wish to provide increased capital, the vast majority of which will involve no monetary transfer to the Bank so that the Bank can, under its Charter, have the legal power to increase its lending.

And it costs little, if anything. Let me use as an example the experience of the United States and the World Bank, the country most outspoken in its requirements for demonstrations of efficiency and effectiveness on the part of public institutions.

When the Bank was founded, the United States paid-in capital -- was $635 million. Over the succeeding 38 years -- to the present -- it has paid into the Bank only $500 million in the form of increased capital contributions.

The US made no capital payments in the 25 year period 1947 through 1972. It paid in $150 million in the period 1972-77 and has made additional capital contributions of about $350 million since then.

I noted earlier that the Bank has leveraged these rather modest amounts of paid-in capital (and the paid-in capital of other countries) to increase its loan commitments to LDCs by almost $100 billion since the late 1960s by borrowings in world capital markets -- not from capital contributions of member governments.

More particularly, I might note here that the actual lending was financed virtually exclusively from Japanese, OPEC, Swiss and German savings and from investors in other countries who invested in our bond issues or placements in those three currencies.

Indeed, of the World Bank's currently outstanding loans of $41.3 billion, only $6.7 billion is denominated in US dollars -- an amount <u>less</u> than the US dollars borrowed from sources <u>outside</u> the United States, that is from central banks or in Euro or Asian markets, or from other member governments as part of their capital contribution in dollars.

Indeed, the World Bank recently holds upwards of $10 billion in liquidity in US banks or government bonds. Thus, for the most part, the US dollars borrowed in the United States or elsewhere were not lent. They were reinvested in the United States as part of the Bank's liquidity pending disbursements on loans - a day which has not yet come as the Bank consistently has found either new markets or expanded old ones to finance the disbursements on its loans.

Finally, over the last 38 years US corporations have won contracts for goods and services on World Bank financed projects in excess of $10 billion. The dollars used to pay those corporations were purchased mostly from the proceeds of our Deutsche Mark, Yen and Swiss Franc borrowings.

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What then, considering the cost -- which is de minimus --, the measurable leverage of the paid-in capital contributions, the fragility of the financial system, the political implications of not lending, is the debate all about as we move ahead in our discussions of a capital increase for quality lending supported by quality development advice. Certainly, there are contentious issues. For example, there are valid questions to be explored regarding the advice and monitoring role of the World Bank in multi-year rescheduling agreements. There is a need to coordinate our policy advice and better articulate our relationship with the IMF. There are issues relating to the terms of the lending and the balance between policy based and project related financing. And how can we monitor resources and increase the comfort level of the private sector so that their confidence in us is well placed? And, perhaps, most topical, exactly how do we insist or encourage commercial banks to increase their lending? These are valid issues.

I doubt very much that we will become cute or naive. For example, conclude that guaranteeing increased commercial bank lending to facilitate debt service payments to those banks would be a mark of great value or evidence of increased commercial bank lending. That power, I expect, will be used quite selectively depending on the amount of increased commercial bank exposure, its relationship to the debt servicing flows and the overall terms of new commercial bank exposure. We will keep our eye on what we do best. We will use effectively our greatest asset -- a motivated and expert staff offering quality development advice with financial support. We will resist the temptation to solve unsolvable problems. We will understand what are the limitations of our capacity and the advantages we can offer. Then, I think we will have credibility and will increase the comfort level of private financial institutions -- a condition precedent to growth of LDCs -- and will, in the process, encourage those institutions to increase their lending. It does not follow that because we cannot do everything or indeed anything to provide a quick fix, that our significance is marginal. That certainly has not been the case up to now.

Let me conclude quickly:

Support for increased World Bank lending means the developing world will see explicit support. Under such circumstances, they are less likely to feel hopeless, and less likely to resort to behavior damaging to their own and the industrialized world's institutions.

It is not creditable to offer policy advice without money. Influence is possible on development policy, as a practical matter, only if accompanied with resources. The resources are available to us from private markets and will continue to be so if we maintain sensible policies.

For these reasons, it would seem that a capital increase is appopriate, needed and beneficial particularly the more so, given its cost to the industrialized world.