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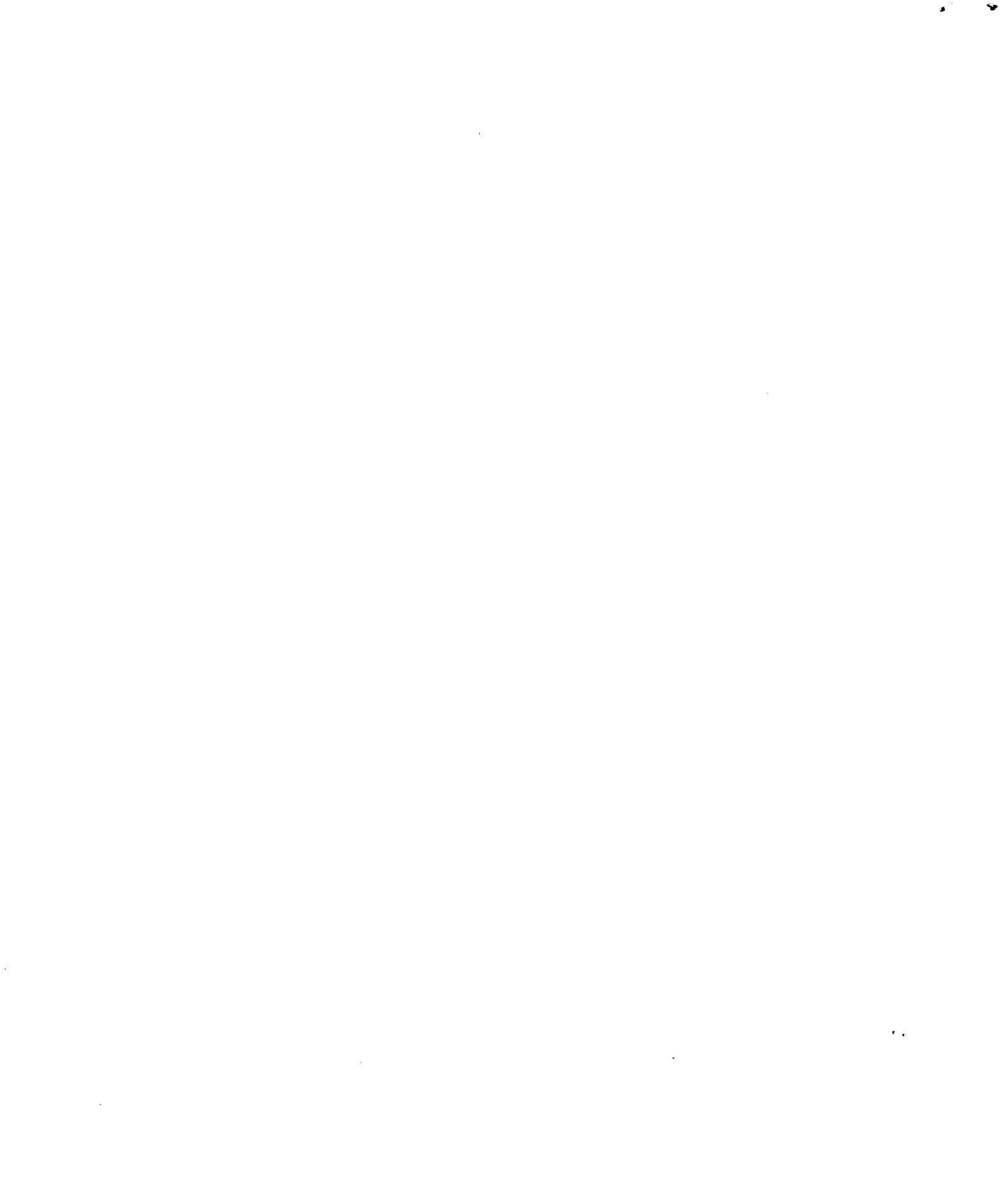
Economic Commission for Latin America  
Washington Office



ISSUES THAT POSSIBLY WILL BE RAISED AT THE 1980  
WORLD BANK ANNUAL MEETING

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ISSUES THAT POSSIBLY WILL BE RAISED IN SEPTEMBER  
WORLD BANK MEETINGS

1. IBRD Structural Adjustment Loans

a) General

The World Bank has had limited program lending for many years. These credits have been very lightly conditioned loans designed to support a country's import capacity. However, the Bank currently feels that balance of payments problems in many developing countries are related to structural supply-productivity bottlenecks; thus traditional demand management techniques can bring about adjustment only at great sacrifice to growth and development. To provide assistance in the prevailing environment, the Bank has introduced the so-called structural adjustment loans. Their purpose is to relieve demand restraints and to augment supply. Typically they will be destined to purchase inputs for productive sectors, particularly those related to exports, as well as provide for rehabilitation of support facilities such as electrical power. The loans also are accompanied by technical assistance for industrial planning and export promotion. The structural adjustment loans have more conditionality than the old program loans: targets are established for structural adjustment over a medium term period, and a country is expected to comply with them. To date, Kenya, Turkey, Bolivia, and Guyana have been authorized to receive these loans.

b) Policy

The Bank apparently has internal guidelines for structural adjustment loans, but they have not been revealed to the public. Thus it is difficult

to be well informed about their specific nature and application. It is known, however, that the Bank has decided to limit structural adjustment loans to roughly 7% of total annual lending, or to about 800 million dollars. (This is not very much considering that there are over 90 oil importing developing countries). The Bank perceives two types of clients: (i) those in immediate balance of payments trouble; and (ii) those that have potential problems and for which loans would act as preventive medicine. The loans might typically have a 25-year repayment term with 5 years' grace for the poorest countries, and a 15-year term with 3 years' grace for the better off developing countries. The interest rate is commercial, reflecting the Bank's cost of funds. In sum, while we know some things about the structural adjustment loans, for the outsider much remains vague and ill-defined. One suspects that the Bank itself is still struggling with the concept, and for the moment policy will evolve on a case-by-case basis.

c) Cooperation with the IMF

The Bank and Fund have long cooperated with regard to assistance to developing countries. The two organizations' staffs exchange data, debrief each other after missions and attempt not to work at cross purposes. With the Bank moving into structural balance of payments lending and the Fund extending its standby program to three years, there is now considerable overlap in their work. But coordination appears to continue to be informal, worked out on a case-by-case basis, and organized so as not to blur the identity of the two organizations.

Guyana is a case in point. The IMF has agreed to award the government a 3-year extended standby program credit of 100 million SDR's; meanwhile

the IDB has agreed in principle to lend 15-20 million dollars for structural adjustment. The staff of the two organizations have negotiated separately with Guyanese authorities, but in Washington work has been accompanied by joint staff consultations to ensure that the two programs do not work at cross purposes. (The coordination does not reach the Board level; it is primarily between the two agencies' staffs.) I was told that although the lending was parallel, the two programs are independent in as much as failure to meet the targets of one organization would not necessarily prejudice the lending of the other --the precise reaction would be determined by the circumstances of each case. However, the borrower is made to understand that both sets of targets are expected to be met. In sum, cooperation between the IMF-World Bank continues to be close, but informal, and its precise nature is brought about on a case-by-case basis.

d) Pending issues

The structural adjustment loans are institutionalized and functioning, and in themselves are not an issue. However, developing countries want a much bigger structural lending program and they feel that it must be in addition to current Bank lending. Thus the issues of more resources for the Bank and more structural lending will undoubtedly be discussed in the meetings.

2. Energy Affiliate

a) Background

The World Bank has recently proposed the establishment of an energy affiliate. In an excellent report on energy requirements for the decade

of the 80's, <sup>1/</sup> the Bank projects that demand for energy in developing countries will rise by 6% a year, roughly double the estimated growth in the industrialized countries. Meanwhile it projects real price increases in petroleum of 3% per annum. By 1990, if present trends continue, the cost of oil imports for developing countries could more than double in real terms to 110 billion dollars. However, according to the Bank, through conservation, effective pricing, and a more intensive energy investment program, there is great scope for reducing oil imports; indeed, in the optimistic case the Bank sees savings of over 25 billion dollars. The resulting requirements for investment in energy in developing countries are massive: not even assuming a maximum energy effort, the Bank estimates annual investment requirements rising from 34 billion dollars in 1980 to an annual average of 82 billion dollars in the latter half of the decade.

b) Energy and the World Bank

Given the high potential return from energy investments, the Bank intends to intensify its assistance in this area. The Bank correctly calculates that its major role should be to help develop national energy resources that may not be attractive to private investment (e.g., because of limited scale, or risk), but which nevertheless offer significant potential for reducing oil imports and consequent savings of foreign exchange. The Bank's current program for energy lending calls for

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1/ Energy in the Developing Countries, August 1980. Copies have been sent to Santiago. I see no reason to provide a comprehensive summary of the report since The Economist (September 6) has already done this ..... quite well (see attached article). I would only like to remark that in the report Latin America stands out as having much to gain from more intensive energy development; it has considerable potential additional energy resources in oil, gas, coal and hydro power.

13 billion dollars over 1981-1985, or roughly 17% of total planned commitments. However, it claims that a desirable program would be 25 billion dollars, which in any case is still only a fraction of total investment requirements. However, the Bank is unwilling to reduce other types of lending to achieve this goal. Thus the need for new resources.

c) The Affiliate

The Bank sees an affiliate as a vehicle for raising the additional resources. The affiliate is only a proposal, with its structure and operations yet to be defined. For instance, it still remains to be determined who should finance the affiliate: the OPEC countries, the ..... industrialized countries, or both. (The Sept. 6 Economist --attached-- argues that it would be dangerous to have OPEC finance the affiliate.) A related issue is voting rights for authorization of loans. There is also the question of the gearing ratio of the affiliate: should it be 1:1 like the Bank, or should the affiliate gear itself to 2:1 or more. Also of issue is whether all the affiliates capital should be paid-in. These and other aspects of the affiliate undoubtedly will be tossed around in the September meeting. The Bank would like to have a concrete program prepared for the affiliate by year end.

3. The PLO and OPEC Financing

It is clear from the above that the question of new sources of funding for the Bank is a big issue in 1980. OPEC is an obvious candidate. However, a potential dispute over the PLO could make this option less feasible. Apparently last year the PLO requested to attend the September 1980 meetings of the Bank and Fund in the status of observers. Observers

at the meetings are usually approved annually after consultation with the Executive Directors. This year the Directors said that they could not make up their minds on the issue of observers and asked that the matter be studied in Committee. Pending its findings, they proposed that the list of observers be limited to that of 1979, thus postponing any decision on the PLO until March 1981 when the Committee will make its recommendation. The Directors' resolution must be approved by the Board of Governors, which has a voting deadline of September 19. In the meantime, the oil states have been cool to any idea of new commitments to the two agencies, as witnessed in the disappointing results of the August visit of the Managing Director of the IMF to some OPEC countries. (See page 3 of my other memorandum of September 8, 1980 on the IMF). Rumor has it that the required quorum of necessary votes will not be received by September 19, leaving the decision on the PLO participation to the Chairman of the September meetings; at the time of writing this memo he is thought to be leaning towards approval of the PLO request. This would appear to be an easy way out of a delicate situation.

#### 4. Voting Rights and Membership

The Group of 24 has requested that developing countries gain more voting rights at the Bank. The Directors are concerned about diluting the voting power of its major donors, for fear that a General Assembly environment might develop, inducing withdrawal of financial support by the rich countries. Thus there appears to be possibilities for little more than nominal changes in this area. China, however, will be a new member of the Bank and there is considerable support for it gaining a seat.



5. Capital Increase of the IBED and Replenishment of IDA

The Bank has doubled its authorized capital and there is a 12 billion dollar replenishment of IDA pending. Both funding targets have been seriously obstructed by the slowness of the U.S. Congress to make the necessary authorizations. It appears that little can be done until after the November national elections.

6. The Development Committee

This year the Committee will not discuss specific papers, as in the past, but rather will use papers as background for more general discussions. The Committee found that the number of papers being discussed had become excessive, thereby thwarting rather than aiding debate. Three basic issues will be at the point of discussion: (i) policy issues related to trade, adjustment and balance of payments requirements for the 1980's; (ii) how financing will be effected through concessional lending, capital markets (including international organizations) and direct foreign investment; and (iii) other miscellaneous business of the Committee. A general feeling is that financing is adequate for 1980, but that 1981 could present some problems, calling forth a need for new recycling mechanisms and more concessional flows.

The Committee will make observations on the Brandt Commission's recommendations (it apparently feels that the proposals for international taxation to finance development are not very realistic) and the proposals of the Group of 24. Also, 3 reports will be filed: the first will deal with capital flows; another will be presented as a progress report on the Committee's analysis of capital flows and the last one is a report on direct foreign investment to be presented by Mr. Bergsten.

The Committee has reviewed the effectiveness of the IMF's Compensatory Financing Facility; it concludes that the liberalized facility has responded very well to actual needs, so that at the present it sees no need to modify the operation.

Finally, it should be noted that this year the Committee's mandate was extended one year into 1981.

7. New Bank President

Undoubtedly corridor chat will raise the issue of who will succeed Mr. Robert McNamara. This appears to be anyone's guess at the moment.