

**SUMMARY PRESENTATION**  
by  
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INTRODUCTION

IT IS A GREAT PLEASURE TO FIND MYSELF THIS MORNING AMONG THIS DISTINGUISHED GROUP OF BANKERS, INSURANCE REPRESENTATIVES AND REPRESENTATIVES OF THE GOVERNMENT AND THE CENTRAL BANK. IN SOME COUNTRIES, BANKS ARE MORE CLOSELY RELATED TO THE GOVERNMENT THAN ARE OTHERS. BUT IN ALL COUNTRIES, BANKERS PLAY AN IMPORTANT ROLE IN HELPING TO ACHIEVE THE ECONOMIC OBJECTIVES OF THEIR CLIENTS AND THE SOCIETIES WHERE THEY OPERATE. WE IN THE TREASURY SIDE OF THE WORLD BANK HAVE MUCH IN COMMON WITH THAT EXPERIENCE. THE WORLD BANK IS A BANK IN THE SENSE THAT WE INTERMEDIATE THE FLOW OF FUNDS; THAT IS, WE BORROW FUNDS MOSTLY FROM THE CAPITAL MARKETS AND WE LEND THEM TO DEVELOPING COUNTRIES. OVER 80% OF EVERY LOAN THAT IS COMMITTED AND DISBURSED TO DEVELOPING COUNTRIES WILL BE FUNDED THROUGH BORROWINGS, AS I WILL DESCRIBE FURTHER BELOW.

WE HAVE TO SERVE 3 CONSTITUENCIES. AS A BANK, WE MANAGE OUR FINANCIAL AFFAIRS IN A PRUDENT FASHION IN ORDER TO ASSURE OURSELVES SUPPORT IN THE PRIVATE MARKETS ON WHICH WE DEPEND. THE BANK IS MANAGED, IN PART, TO MEET THE REQUIREMENTS OF THE MOST CONSERVATIVE SAVERS IN THE FINANCIAL MARKETS. ON THE OTHER HAND, WE ARE THE WORLD BANK AND WE ARE A PUBLIC INSTITUTION. OUR SHAREHOLDERS ARE THE GOVERNMENTS OF THE WORLD AND WE MUST MANAGE OUR AFFAIRS IN ACCORD WITH THEIR GUIDANCE AND IN AN OBJECTIVE AND PROFESSIONAL WAY THAT WILL PERMIT GOVERNMENTS OF ALL PERSUASIONS TO DISCUSS AND AGREE ON POLICIES FOR RUNNING ONE INSTITUTION IN WHICH THEY ALL SHARE RESPONSIBILITY. FINALLY,

WE HAVE A THIRD CONSTITUENCY AND THAT IS OUR BORROWERS, THE LESS DEVELOPED COUNTRIES. OUR PURPOSE, AS I AM SURE YOU KNOW, IS TO PROMOTE ECONOMIC DEVELOPMENT IN THE LESS DEVELOPED COUNTRIES AND EVERYTHING WE DO -- IN THE PRIVATE SECTOR AND IN TERMS OF OUR RECOMMENDATIONS TO OUR SHAREHOLDERS -- IS DONE WITH THE VIEW TOWARDS PROVIDING THE FUNDS REQUIRED BY THE LESS DEVELOPED COUNTRIES AT THE LOWEST POSSIBLE COST ON AN ONGOING BASIS IN ORDER TO HELP THEM MEET THEIR GOALS OF ECONOMIC DEVELOPMENT, AND THEREBY SUPPORT GROWTH IN THE WORLD ECONOMY.

#### BALANCE SHEET

WHAT I WOULD LIKE TO DO THIS MORNING IS SPEND A VERY FEW MOMENTS DESCRIBING THE HISTORY OF THE WORLD BANK AND THEN REVIEW WITH YOU THE BALANCE SHEET OF THE WORLD BANK AS A MEANS OF EXPLAINING HOW WE CONDUCT OUR BUSINESS ON THE FINANCIAL SIDE OF THE BANK. WHAT I HOPE TO CONVEY TO YOU IS NOT ONLY THE LARGE SIZE AND CONSERVATIVE STRUCTURE OF THE WORLD BANK BUT ALSO A SENSE OF HOW WE MANAGE THIS INSTITUTION IN WAYS THAT ACHIEVE A BALANCE BETWEEN THE INTERESTS OF THE THREE CONSTITUENCIES I MENTIONED -- THE PRIVATE MARKETPLACE ON WHOM WE DEPEND FOR FUNDS, OUR SHAREHOLDER GOVERNMENTS ON WHOM WE DEPEND FOR OUR CONTINUED SUPPORT, AND THE LESS DEVELOPED COUNTRIES FOR WHOM, AFTER ALL, WE EXIST TO UNDERPIN THEIR ECONOMIC GROWTH.

THE WORLD BANK WAS ESTABLISHED IN 1945 TO PROMOTE THE RECONSTRUCTION OF THE WAR RAVAGED ECONOMIES AFTER WORLD WAR II AND TO SUPPORT ECONOMIC DEVELOPMENT IN THE LESS DEVELOPED COUNTRIES OF THE WORLD. THE WORLD COMMUNITY ESTABLISHED THE WORLD BANK AS A MAJOR INSTRUMENT FOR BRINGING ABOUT A VITAL AND HEALTHY POSTWAR ECONOMIC ORDER, AND I NEED HARDLY TELL YOU HOW SUCCESSFUL THAT POLICY WAS IN RECONSTRUCTING THE ECONOMIES OF JAPAN AND OTHER COUNTRIES

OF EUROPE AND ASIA. BY NOW, THE WORLD BANK IS KNOWN AS A DEVELOPMENT INSTITUTION IN THE SENSE THAT WE LEND MONEY TO COUNTRIES WHO REQUIRE OUR CASSISTANCE IN REACHING THEIR OBJECTIVES FOR ECONOMIC DEVELOPMENT WITHIN THE INTERNATIONAL FINANCIAL SYSTEM. OUR BELIEF IS THAT THE POLICIES THAT LED TO OUR CREATION AND TO THE REMARKABLE POSTWAR ECONOMIC RECOVERY REMAIN SOUND. WE PROMOTE ECONOMIC DEVELOPMENT BY PROVIDING LOANS FOR SPECIFIC PROJECTS IN THE INTEREST OF SUSTAINING THE GROWTH OF INTERNATIONAL TRADE AND IMPROVED STANDARDS OF LIVING THROUGH IMPROVED PRODUCTIVITY.

THE BANK HAS A RATHER SIMPLE BALANCE SHEET WHICH I WOULD LIKE TO REVIEW WITH YOU. THE FIGURES I USE ARE AS OF DECEMBER 31, 1986. BASICALLY, THERE ARE ONLY FOUR MAJOR ITEMS ADDING UP TO ABOUT \$88 BILLION BALANCE. ON THE ASSET SIDE, WE HAVE CASH AND LOANS. AND ON THE LIABILITY SIDE, WE HAVE OUR BORROWINGS AND CAPITAL. I THINK IN EACH OF THESE AREAS, YOU WILL FIND WE ARE UNIQUE IN OUR APPROACH TO CASH FLOW. LET ME ADMIT AT THE OUTSET THAT THE BANK'S BALANCE SHEET IS DIFFERENT FROM ANY PRIVATE INSTITUTION WHOSE PAPER YOU MAY HOLD. THE REASON IS THAT THE BANK IS A PUBLIC INSTITUTION. OUR SHAREHOLDERS ARE GOVERNMENTS WHO OWN THE STOCK AND ALSO STAND BEHIND THE BANK FINANCIALLY THROUGH A DIRECT FINANCIAL BINDING COMMITMENT. THIS INTERLOCKING OF OWNERSHIP, WITH FINANCIAL LIABILITY AND PUBLIC PURPOSE HAS LED TO A UNIQUE -- AND EXCEEDINGLY UNDERLEVERAGED FINANCIAL OUTCOME.

1. LIQUIDITY

ON THE ASSET SIDE, AS OF DECEMBER 31, 1986, CASH LIQUID ASSETS OF THE BANK STOOD AT \$19 BILLION. THE BANK HAS A POLICY OF MAINTAINING THIS EXTRAORDINARY HIGH LEVEL OF LIQUIDITY IN ORDER TO ASSURE FLEXIBILITY IN ITS BORROWING DECISIONS. THE LIQUIDITY AT THE END OF THE YEAR WAS EQUIVALENT TO MORE THAN 25% OF ALL OUTSTANDING BANK DEBT AND WAS EQUAL TO 66% OF THE DEBT ISSUED BY THE BANK TO PRIVATE INVESTORS, MATURING WITHIN 5 YEARS. THE LIQUIDITY IS ABOUT 5 TIMES SHORT TERM DEBT. THE BANK HOLDS THIS LIQUIDITY FOR ONE REASON -- FLEXIBILITY. WE WANT TO BE ABLE TO BORROW WHEN AND WHERE WE THINK IT'S WISE. AND WE WANT TO HAVE THE CASH ON HAND TO STAY OUT OF MARKETS WHEN THE COSTS ARE TOO HIGH OR WHEN MARKETS ARE UNSTABLE. IT IS BUILT UP WHEN MARKETS ARE STABLE AND OPEN AND HELD UNTIL NEEDED FOR DISBURSEMENTS.

ON THE OTHER HAND, HAVING THE CASH, WE MANAGE IT VERY ACTIVELY. THE LIQUIDITY TRADES MORE THAN TWO TRILLION DOLLARS A YEAR! IT IS A CONSISTENT PROFIT CENTER FOR THE BANK. MY COLLEAGUES IN THE INVESTMENT AREA ARE CHARGED WITH KEEPING THE FUNDS LIQUID, SAFE, AND PROFITABLE. THE AVERAGE DURATION IS LIMITED TO 3 MONTHS TO 4 YEARS; IT IS INVESTED IN GOVERNMENT SECURITIES AND THE PAPER OF BANKS WITH THE HIGHEST CREDIT RATING. THE LIQUIDITY IS IN 25 CURRENCIES, THOUGH ABOUT 75 - 85% IS IN DOLLARS. ALL OF IT COULD BE CONVERTED TO CASH TO MEET OUR COMMITMENTS IN ABOUT 48 HOURS. NO CURRENCY RISK.

LET ME UNDERLINE ONE FACT. THE LIQUIDITY IS PROFITABLE, BUT EVEN IF IT WERE NOT, WE WOULD HOLD IT BECAUSE IT IS A BASIC PREMISE OF OUR FINANCIAL POLICIES TO BE PRUDENT -- WHICH MEANS TO MAINTAIN FLEXIBILITY -- THAT IS, TO DRAW IT DOWN AND BUILD IT UP -- OPPORTUNISTICALLY. THE RATE OF RETURN ON LIQUIDITY FOR THE FIRST HALF OF FY 87 (JULY 1 - DECEMBER 31, 1986) WAS 8.44%, INCLUDING 107 MILLION OF CAPITAL GAINS. THIS RETURN WAS 2.6% ABOVE OUR MARGINAL COST OF DEBT.

## 2. LOANS

THE BANK'S OTHER ASSET IS ITS PORTFOLIO OF OUTSTANDING LOANS WHICH ARE MADE TO SUPPORT ECONOMIC DEVELOPMENT IN MEMBER COUNTRIES OF THE BANK. ALL LOANS BY THE WORLD BANK ARE SOVEREIGN CREDITS. ALL ARE GUARANTEED BY THE GOVERNMENT WHERE THE FUNDS ARE LENT. SINCE 1946 \$39 BILLION OF LOANS MADE BY THE WORLD BANK HAS BEEN REPAID, SOLD TO THIRD PARTIES OR CANCELLED. AS OF DEC. 31, 1986, DISBURSED AND OUTSTANDING LOANS EQUALLED \$69 BILLION AND AN ADDITIONAL 40 BILLION WAS COMMITTED BUT UNDISBURSED. THIS GREAT LAG BETWEEN COMMITMENTS AND DISBURSEMENTS IS WHAT DISTINGUISHES US FROM BANKS AND OTHER PRIVATE LENDERS. WE DO NOT SIMPLY TRANSFER FUNDS. WE MAKE PAYMENTS OVER A LONG TIME TO THE EXTENT THAT GOODS AND SERVICES ARE PURCHASED AND/OR POLICY REFORMS ARE IMPLEMENTED TO ASSURE ORDERLY COMPLETION OF PROJECTS.

THE BANK'S LOAN PORTFOLIO IS DIVERSIFIED BY COUNTRY AND PROJECT SECTOR. NO LOANS ARE MADE IN COUNTRIES NOT DEEMED CREDITWORTHY AND COUNTRY CREDITWORTHINESS OF ALL BORROWING MEMBERS IS KEPT UNDER CONTINUOUS REVIEW. THE OVERWHELMING PROPORTION OF BANK LOANS ARE IN SUPPORT OF INDIVIDUAL PROJECTS; THEY MUST BE OF HIGH PRIORITY IN THE COUNTRY'S DEVELOPMENT PROGRAM; THEY ARE SUPERVISED BY THE BANK EMPLOYEES UNTIL PHYSICAL COMPLETION. PROJECT LOANS ARE TYPICALLY DISBURSED OVER A PERIOD OF 6 TO 9 YEARS AGAINST DOCUMENTED EXPENDITURES REVIEWED BY THE BANK. BANK LOANS ARE USED PRIMARILY TO FINANCE GOODS AND SERVICES PROCURED UNDER INTERNATIONAL COMPETITIVE BIDDING, AND THE PAYMENTS ARE MADE DIRECTLY TO THE OUTSIDE SUPPLIER OF GOODS AND SERVICES. TYPICALLY, A BANK LOAN COVERS 30-40% OF THE OVERALL PROJECT COSTS WITH THE BALANCE COMING FROM THE BORROWER'S RESOURCES AND EXTERNAL LOANS. IN THIS FISCAL YEAR 87, THE BANK WILL COMMIT UPWARDS OF \$15 BILLION IN DEVELOPMENT LOANS.

AS JUST MENTIONED, THE OVERWHELMING PROPORTION OF BANK LOANS IS IN SUPPORT OF INDIVIDUAL PROJECTS TO PROMOTE THE ECONOMIC DEVELOPMENT OF MEMBER COUNTRIES. THERE ARE ABOUT 2500 ECONOMISTS, FINANCIAL ANALYSTS, ENGINEERS, AGRICULTURALISTS AND OTHER TECHNICAL EXPERTS IN THE BANK WHOSE RESPONSIBILITY IS TO CAREFULLY EVALUATE ECONOMIC CONDITIONS IN BORROWER COUNTRIES AND ENSURE THE VIABILITY OF INDIVIDUAL PROJECTS. IT TYPICALLY TAKES 1-1/2 YEARS TO APPRAISE A PROJECT. WHAT DO WE LOOK AT WHEN APPRAISING A PROJECT? WE ASK -- DOES THE PROJECT MAKE SENSE, WHAT IS THE ECONOMIC RATE OF RETURN, IS IT OF HIGH PRIORITY, DOES THE COUNTRY HAVE THE TECHNICAL AND MANAGERIAL STAFF, ARE THERE SUFFICIENT LOCAL RESOURCES, AS WELL AS MULTITUDE OF OTHER TECHNICAL CONSIDERATIONS THAT NEED TO BE ADDRESSED.

IN ADDITION, THE BANK LENDS TO SUPPORT THE INTRODUCTION OF BASIC REFORMS OF BORROWER'S ECONOMIC AND FINANCIAL POLICIES TO PROMOTE A MORE EFFICIENT GROWTH PROCESS. THESE SECTORAL AND STRUCTURAL ADJUSTMENT LOANS ARE PAID OUT IN TRanches AND ACCOUNT FOR BETWEEN 20% AND 25% OF PRESENT AND PROJECTED COMMITMENTS.

NO LOANS ARE MADE IN COUNTRIES NOT DEEMED CREDITWORTHY. COUNTRY CREDITWORTHINESS OF ALL BORROWING MEMBERS IS KEPT UNDER CONTINUOUS REVIEW. HUNDREDS OF MAN DAYS ARE SPENT IN EXAMINING THE CREDITWORTHINESS OF A COUNTRY -- ITS BALANCE OF PAYMENTS CONDITION, ITS RELIANCE ON TRADE, ITS RELIANCE ON A SINGLE COMMODITY FOR EXPORT, THE EXTENT TO WHICH THE COUNTRY CAN PAY FOR IMPORTS OF OIL AND FOOD, ITS DEBT SERVICING OBLIGATIONS, ITS SAVINGS RATE, ITS EXTERNAL DEBT AND A WHOLE RANGE OF MACROECONOMIC VARIABLES. THE POINT OF THIS EVALUATION IS SIMPLY TO DETERMINE A COUNTRY'S ABILITY TO SERVICE DEBT -- BEFORE CONSIDERING THE QUALITY OF A PROJECT.

ONCE A PROJECT HAS BEEN FINANCED, THE BANK CAREFULLY SUPERVISES THE PROJECT THROUGHOUT ITS IMPLEMENTATION PHASE INVOLVING THE PREPARATION OF REGULAR PROGRESS REPORTS AND FIELD MISSIONS. RESOURCES ALLOCATED TO THIS TASK HAVE GROWN SUBSTANTIALLY AND PRESENTLY AMOUNT TO ABOUT (\$100 MILLION) ANNUALLY COVERING A PORTFOLIO OF CLOSE TO (2000 PROJECTS).

WE DO NOT RESCHEDULE INTEREST OR PRINCIPAL PAYMENTS ON OUR LOANS OR PARTICIPATE IN RESCHEDULINGS. WE ONLY LEND TO COUNTRIES THAT ARE IN COMPLIANCE WITH THEIR DEBT SERVICE OBLIGATIONS TO US AND DEBT SERVICE PAYMENT DELAYS ARE NOT SIGNIFICANT. AT DEC. 31, 1986, ON OUR PORTFOLIO OF \$69 BILLION IN DISBURSED AND OUTSTANDING LOANS, ONLY 20 MILLION IN SERVICE PAYMENTS WERE OVERDUE BY MORE THAN 3 MONTHS BUT LESS THAN SIX MONTHS. IN ADDITION, THE BANK HAS DEVELOPED A FIRM POLICY UNDER WHICH ANY BORROWER WHO FALLS BEHIND IN HIS PAYMENTS BY 6 MONTHS WILL HAVE ITS LOANS FROM THE BANK PLACED IN NON-ACCRUAL STATUS UNLESS IMMEDIATE PAYMENT IS EXPECTED. THIS POLICY WAS BEING APPLIED TO 2 COUNTRIES (NICARAGUA AND GUYANA) WITH PRINCIPAL BALANCES OUTSTANDING TOTALLING \$ 279 MILLION. THE INCOME EFFECT FROM THESE FEW INSTANCES IS NOT SIGNIFICANT.

LOAN CHARGES, WHICH INCLUDE 1/2% SPREAD OVER THE COST OF BORROWING, CARRY A CURRENT INTEREST RATE OF 7.92%. IN ADDITION, THERE IS A COMMITMENT FEE OF 3/4% ON UNDISBURSED LOAN BALANCES. THE BANK'S INCOME IS EXEMPT FROM TAXATION.

THE REASONS FOR THIS IMPECCABLE RECORD ARE MANY. ON THE ONE HAND, WE ARE TRUSTED AND WE HAVE DEVELOPED LONG STANDING RELATIONSHIPS. ON THE OTHER HAND, WE ARE VERY TOUGH ON THIS ISSUE. IF A COUNTRY FALLS BEHIND BY 30 DAYS,

WE INFORM ALL MEMBER GOVERNMENTS. IF THERE WERE A SIGNIFICANT BREAK -- 75 DAYS -- IN REPAYMENT WE STOP ALL DISBURSEMENTS ON ALL ITS PROJECTS AND APPROVE NO NEW LOANS -- AND REMEMBER WE HAVE SUBSTANTIAL COMMITTED BUT UNDISBURSED FUNDS (\$ 40 BILLION). FINALLY, WE ARE AN INSTRUMENTALITY OF OUR MEMBER GOVERNMENTS. A RUPTURE WITH US WOULD BE A BREAK WITH THE WORLD'S FINANCIAL SYSTEM. AND NO COUNTRY WISHES TO RISK THAT.

B. LIABILITIES

NOW LET ME TURN TO THE LIABILITY SIDE OF THE BANK'S BALANCE SHEET.

1. BORROWINGS

THE BANK'S OUTSTANDING BORROWINGS FOR THE SIX MONTHS ENDING DEC. 31, 1986, WERE \$74.4 BILLION. THESE BORROWINGS WERE DENOMINATED IN MORE THAN 20 CURRENCIES AND CARRIED AN AVERAGE COST FOR THE SIX MONTHS OF 7.84%. THE MARGINAL COST OF THE \$5 BILLION BORROWED IN THE 6 MONTHS ENDED DECEMBER 31, 1986 WAS 5.80%. MOST OF THESE BORROWINGS WERE CONTRACTED AS MEDIUM- TO LONG-TERM FIXED RATED OBLIGATIONS. IN ADDITION, WE HAVE A SHORT-TERM BORROWING PROGRAM IN US-\$ AT THE FINEST POSSIBLE SPREADS OVER U.S. TREASURY OBLIGATIONS. THIS PROGRAM IS BOTH IN THE U.S. DISCOUNT NOTE MARKET, (WHERE THE OUTSTANDING AMOUNTS ARE \$ 2.2 BILLION) AND IN OUR CENTRAL BANK FACILITY WHICH CONSISTS OF ONE-YEAR VARIABLE RATE BORROWINGS (\$ 1.8 BILLION OUTSTANDING). THUS, THE MATURITY OF OUR DEBT IS SHORT-TERM TO PERPETUAL. THE BANK ENJOYS ACCESS TO CAPITAL MARKETS WORLDWIDE ON THE BASIS OF ITS REPUTATION AS A PREMIER CREDIT. OUR MEDIUM- AND LONG-TERM U.S. PUBLICLY ISSUED NOTES AND BONDS HAVE BEEN RATED AAA OR ITS EQUIVALENT. SECURITIES ISSUED OUTSIDE THE UNITED STATES WITHOUT RATINGS HAVE BEEN AT YIELDS COMPARABLE TO GOVERNMENT OR GOVERNMENT GUARANTEED DEBT.

THE BANK IS A MAJOR BORROWER IN WORLD-WIDE CAPITAL MARKETS. IT IS THE LARGEST NON-RESIDENT BORROWER IN HIGHLY CONSERVATIVE MARKETS SUCH AS SWITZERLAND, GERMANY, JAPAN, AND THE NETHERLANDS. THE GERMAN CAPITAL MARKET,



IN PARTICULAR, IS VERY IMPORTANT TO THE BANK. AS OF DECEMBER 31, 1986, THE BANK HAS BORROWED DM 49 BILLION IN PRIVATE PLACEMENTS, SYNDICATED LOANS, DIRECT LOANS AND PUBLIC ISSUES, OF WHICH ABOUT DM 27 BILLION REMAINS OUTSTANDING.

CONSIDERING THAT THE WORLD BANK FIRST ENTERED THE GERMAN CAPITAL MARKET IN 1959 WITH A BOND ISSUE OF DM 200 MILLION, THIS GROWTH REPRESENTS A CONSIDERABLE ACHIEVEMENT WHICH REFLECTS ON THE SUPPORT IT ENJOYS WITH UNDERWRITERS, THE BANKING COMMUNITY AS A WHOLE, ITS INSTITUTIONAL INVESTORS AND PRIVATE INVESTORS IN THIS COUNTRY. I SHOULD ALSO STRESS THAT THE BANK WOULD NEVER HAVE BEEN ABLE TO ATTAIN THIS LEVEL OF BORROWINGS WITHOUT THE FULL SUPPORT OF THE GERMAN FINANCIAL AUTHORITIES, I.E. THE BUNDESBANK AND THE MINISTRY OF FINANCE.

THE HALLMARK OF THE WORLD BANK'S FUNDING STRATEGY IS FLEXIBILITY. WE SEEK THIS IN TWO DISTINCT BUT RELATED WAYS. FIRST, FLEXIBILITY IN ACCESSING THE FUNDS THAT WE NEED, AND SECONDLY, FLEXIBILITY IN MANAGING THEM TO ACHIEVE WHAT WE HOPE WILL BE THE LOWEST POSSIBLE COST TO OUR BORROWERS. LET ME ELABORATE.

FIRST, WE SEEK FLEXIBILITY IN ACCESSING THE FUNDS WE NEED. WE BELIEVE THAT IT IS ESSENTIAL TO IDENTIFY NEW SOURCES OF FUNDING AND OPEN UP NEW MARKETS LONG BEFORE WE ACTUALLY NEED THEM; THUS, WE HAVE AVAILABLE TO US, AT ALL TIMES, A MARGIN OF EXCESS BORROWING CAPACITY IN CASE OF UNANTICIPATED ADVERSE DEVELOPMENTS IN CAPITAL MARKETS. WE ACCOMPLISH THIS IN SEVERAL WAYS.

-- WE HAVE CONTINUOUSLY DIVERSIFIED THE SOURCES OF THESE FUNDS. WE BORROW THE BULK OF OUR FUNDS IN THE COMMERCIAL MARKETS, BUT ABOUT 15% COMES FROM BORROWINGS DONE DIRECTLY WITH CENTRAL BANKS AND OTHER OFFICIAL SOURCES.

-- WE HAVE CONTINUOUSLY DIVERSIFIED THE INSTRUMENTS THROUGH WHICH WE HAVE BORROWED. WE BORROW THROUGH PUBLIC ISSUANCE OF BONDS, PRIVATE PLACEMENTS, SYNDICATED LOANS, AND DISCOUNT NOTES. WE BORROW ON A FIXED RATE AND ON A FLOATING RATE BASIS, WE HAVE RECENTLY ISSUED SERIAL ZERO COUPON BONDS. THE BULK OF OUR BORROWINGS ARE IN MEDIUM- AND LONG-TERM MATURITIES BUT WE ALSO ISSUE SHORT-TERM DISCOUNT NOTES AS WELL AS PERPETUALS. MOREOVER, WE ARE CONTINUOUSLY EVALUATING NEW MARKET OPPORTUNITIES, BE THEY WARRANTS AND CONVERTIBLES, DUAL AND MULTI-CURRENCY OPTIONS, EXTENDABLES, RETRACTABLES AND PERPETUALS, ORIGINAL ISSUE DISCOUNTS, ZERO COUPON, SERIAL ZERO'S, SNIFS, RUFES AND SWAPS.

SECOND, WE SEEK FLEXIBILITY IN RESTRUCTURING THE LIABILITIES THAT WE HAVE ACQUIRED. THIS HAS BEEN DONE THROUGH A LARGE SWAP PROGRAM. THE JUST MENTIONED BROADENING OF THE BANK'S FUNDING BASE PROVIDES US WITH THE FLEXIBILITY REQUIRED TO MEET THE BANK'S BORROWING REQUIREMENTS. IT DOES NOT, HOWEVER, GUARANTEE THAT THE STRUCTURE AND CURRENCY COMPOSITION OF THE FUNDS BORROWED ARE THOSE THAT WE WOULD EXPECT TO RESULT IN THE LOWEST EFFECTIVE COST. IT IS IN THIS RESPECT -- NAMELY, FLEXIBILITY IN THE MANAGEMENT OF LIABILITIES ONCE THESE HAVE BEEN CONTRACTED BOTH BETWEEN DIFFERENT CURRENCIES AND BETWEEN FIXED AND FLOATING RATE OBLIGATIONS, TO ACHIEVE THE LOWEST POSSIBLE COST OF FUNDING -- THAT THE BANK'S SWAP PROGRAM HAS PLAYED SUCH A KEY ROLE.

FROM 1981 THROUGH DEC. 31, 1986, THE WORLD BANK HAD COMPLETED A TOTAL OF ABOUT \$8 BILLION IN CURRENCY SWAPS WITH 63 COUNTERPARTIES INVOLVING 19 CURRENCIES.

THE RESULT OF OUR BORROWING AND SWAP OPERATIONS HAS BEEN A HIGHLY DIVERSIFIED STRUCTURE FOR THE BANK'S EFFECTIVE OUTSTANDING MEDIUM- AND LONG-TERM LIABILITIES.

THE BANK'S BORROWING PROGRAM HAS TO BE VIEWED IN THE CONTEXT OF OUR OVERALL INSTITUTION. WE HAVE LIQUIDITY TO GIVE US BORROWING FLEXIBILITY AND WE HAVE RELATIONS WITH OUR SHAREHOLDERS WHICH ASSURE US ACCESS TO MARKETS BEYOND THAT OPEN TO ANY OTHER BORROWER. I HAVE ALREADY MENTIONED OUR HIGH LEVEL OF LIQUIDITY, AND, STILL, THERE IS MORE TO THE STORY. FOR FINALLY, I WOULD LIKE TO DESCRIBE WHAT IS PERHAPS MOST UNIQUE ABOUT THE BANK -- ITS CAPITAL STRUCTURE.

## 2. CAPITAL

THE BANK HAS TWO KINDS OF CAPITAL PLEDGED BY MEMBER GOVERNMENTS. ON DECEMBER 31, 1986, THE PAID-IN CAPITAL OF THE BANK AVAILABLE FOR LENDING STOOD AT \$5.0 BILLION. IN ADDITION, THE BANK HAS MADE A PROFIT EVERY YEAR AND ALLOCATED MOST OF THOSE PROFITS TO RESERVES. ITS \$7 BILLION OF ACCUMULATED RESERVES ARE NOT DISTRIBUTED AS DIVIDENDS -- THEY ARE PUT BACK TO WORK AT THE BANK. THESE TWO ITEMS ADD UP TO \$ 12 BILLION OF EQUITY. THE BANK'S DEBT/EQUITY RATIO IS 6.2:1. THE RATIO OF ITS OUTSTANDING LOANS TO EQUITY IS 5.8:1. THE AVERAGE COST OF TOTAL FUNDS -- THAT IS, DEBT PLUS EQUITY -- WAS 6.82% FOR THE PERIOD JULY 1 - DECEMBER 31, 1986. I THINK YOU WILL AGREE THAT THOSE ARE VERY CONSERVATIVE RATIOS, UNKNOWN TO COMMERCIAL BANKS OR, FOR THAT

MATTER, WORLDWIDE GOVERNMENT AGENCIES. AND THAT 6.82% MAY BE COMPARED TO THE RETURN ON THE BANK'S AVERAGE EARNING ASSETS -- ITS LIQUIDITY AND LOANS -- WHICH TOGETHER RETURNED 8.86% OR A SPREAD OF 2.04% OVER TOTAL FUNDS FOR THE PAST SIX MONTHS.

THERE IS ONE LAST PIECE IN THE UNIQUELY CONSERVATIVE STRUCTURE OF THE BANK. THE PAID-IN CAPITAL IS THE TIP OF THE ICEBERG. MEMBER GOVERNMENTS ARE OBLIGATED, IF NEED BE, TO PROVIDE ABOUT 10 TIMES THEIR PAID-IN CAPITAL TO THE BANK. IT IS CALLED CALLABLE CAPITAL. ON DECEMBER 31, 1986, CALLABLE CAPITAL OF MEMBER GOVERNMENTS STOOD AT ABOUT \$75 BILLION. CALLABLE CAPITAL IS SOLELY FOR THE PROTECTION OF ITS LENDERS AND CAN ONLY BE USED FOR THAT PURPOSE. THE CALLABLE CAPITAL MAY NOT BE USED IN BANK OPERATIONS FOR DISBURSEMENTS OR FOR ADMINISTRATIVE EXPENSES. IN FACT, THE BANK'S ARTICLES OF AGREEMENT REQUIRE A CALL ON THE CALLABLE CAPITAL IF AND ONLY IF THE BANK IS UNABLE TO MEET ITS OBLIGATIONS TO ITS CREDITORS IN FULL OUT OF ITS OTHER ASSETS. AND THAT IS NOT ABOUT TO HAPPEN AND NEVER HAS. MEMBER COUNTRIES ARE IN THE PROCESS OF SUBSCRIBING TO APPROVED CAPITAL INCREASES WHICH, IF FULLY EXERCISED WOULD RAISE OUR CAPITAL TO ABOUT \$95 BILLION.

FINALLY, UNDER THE BANK'S ORIGINAL CHARTER (THE ARTICLES OF AGREEMENT), THE BANK'S OUTSTANDING AND DISBURSED LOANS ARE LIMITED TO A RATIO OF 1:1 AGAINST THE SUM OF PAID-IN AND CALLABLE CAPITAL, RESERVES AND RETAINED EARNINGS.

THERE IS NO PARALLEL IN THE PRIVATE MARKETPLACE. WE ARE SIMPLY UNDER-LEVERAGED AS A RESULT OF OUR INSTITUTIONAL HISTORY. THE BANK WAS ESTABLISHED AT THE END OF WORLD WAR II AND FOUNDERS OF THE BANK WERE DETERMINED TO AVOID

FINANCIAL INSTABILITY. FROM THE STANDPOINT OF THE COUNTRIES WHO NEED OUR SUPPORT THIS IS, NO DOUBT, AN UNDUE CONSTRAINT. BUT FOR THE MARKETPLACE, I HOPE YOU WILL AGREE THAT IT MAKES US A CREDIT SECOND TO NONE.

LET ME FINALLY END WITH A FEW WORDS ABOUT HOW THE BANK IS MANAGED. THE BANK IS MANAGED AS A PRUDENT AND PROFIT MAKING INSTITUTION, VIABLE AS FAR INTO THE FUTURE AS ONE CAN SEE. THE BANK HAS EARNED PROFITS EVERY YEAR SINCE 1946. THE NET INCOME FOR THE LAST 6 MONTHS WAS \$655 MILLION. THE INCOME OF THE BANK, MOREOVER, IS EXEMPT FROM TAX.

THE PROFITABILITY OF THE BANK RESULTS FROM SEVERAL FACTORS. FIRST, THE OVERALL COST OF FUNDS TO THE BANK IS COMPARATIVELY LOW, REPRESENTING THE BLENDED COST OF DIVERSIFIED BORROWINGS, AND ITS SUBSTANTIAL EQUITY. PROFITABILITY IS ALSO DERIVED FROM THE RETURN ON ITS 19 BILLION OF ACTIVELY MANAGED LIQUID ASSETS AND THE POLICY OF PRICING LOANS TO COVER BORROWING COSTS AND ADMINISTRATIVE EXPENSES AND TO EARN A REASONABLE RETURN ON EQUITY.

SECONDLY, THE BANK'S CHARTER FORBIDS IT TO TAKE ANY FOREIGN EXCHANGE RISK. OUR BORROWINGS IN ANY CURRENCY ARE REPRESENTED EITHER IN OUR LIQUID ASSETS PORTFOLIO OR IN OUR LOAN PORTFOLIO. OUR BORROWERS' OBLIGATIONS TO THE BANK ARE DENOMINATED IN THE CURRENCIES THAT WE BORROW AND DISBURSE TO THEM. IN SHORT, DESPITE THE HIGHLY DIVERSIFIED CURRENCY STRUCTURE OF THE BANK'S BORROWINGS, WE DO NOT HAVE ANY OPEN FOREIGN EXCHANGE POSITION.

THIRDLY, SINCE 1982, THE BANK HAS ADOPTED A FLOATING RATE LENDING SYSTEM BASED ON THE BANK'S AVERAGE COST OF FUNDING. AS A RESULT, TODAY, WHETHER WE BORROW ON A FIXED OR FLOATING RATE BASIS, WE PASS ON THE INTEREST COSTS DIRECTLY TO THE BORROWERS, INCLUDING A MARGIN TO PROVIDE FOR THE BANK'S OPERATING COSTS AND PROFITS.

FOURTHLY, WE CAREFULLY MONITOR THE AVERAGE LIFE OF OUR ASSETS AND LIABILITIES TO ENSURE THAT THEY ARE BROADLY IN LINE WITH EACH OTHER.

FINALLY, A WORD ABOUT OUR MANAGEMENT PHILOSOPHY. IF I WERE TO CHARACTERIZE IT IN ONE SENTENCE, I WOULD SAY IT IS TO MAXIMIZE OUR FLEXIBILITY IN A WORLD CHARACTERIZED BY CONSIDERABLE UNCERTAINTY AND VOLATILITY. WE PLACE GREAT WEIGHT ON EVALUATION OF RISK. WE STRESS INNOVATION AND THE NEED TO MOVE QUICKLY AND OPPORTUNISTICALLY, TAKING ADVANTAGE OF MARKET CONDITIONS AND ADAPTING TO CHANGING CIRCUMSTANCES -- NEVER UNDERESTIMATING WHAT COULD HAPPEN.