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September 14, 1995

To: Members of the Executive Board
From: The Acting Secretary
Subject: Financial Times Article on the World Bank and Multilateral Debt

In response to an article that appeared in today's Financial Times, that contains many inaccuracies, the Bank has issued a press release and a notice to the Bank staff explaining the Bank's position. These are attached for the information of Executive Directors.

Att: (2)

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FOR IMMEDIATE RELEASE

The World Bank

1818 H Street NW, Washington, DC 20433, USA



News Release No. 96/S12

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FINANCIAL TIMES REPORT ON THE WORLD BANK AND MULTILATERAL DEBT

WASHINGTON, September 13, 1995—The World Bank today responded to the report in the Financial Times that it was proposing a new multilateral debt facility.

The Financial Times based its story on a leaked staff discussion document. The Financial Times was told by the World Bank that this document did not represent official Bank policy. Nor is it even a management proposal. Rather, it was intended as a basis for informal consultations within the Bank, with the IMF, and others on debt reduction options. Those consultations are at a preliminary technical stage. There has been as yet no formal discussion with Governments. Indeed, the document had not yet even been shared with the Bank's Board.

Therefore it is incorrect to characterize this report as reflecting the considered views of Mr. James Wolfensohn, World Bank President, or of the Bank. While there has been internal discussion of the document, no recommendations have yet been agreed. So it is entirely premature to represent the document as anything more than a discussion draft.

Mr. Wolfensohn has repeatedly made it clear that he wants the Bank to take a tough look at whether there are feasible options for multilateral debt reduction. This paper was a part of that process.

We can only hope this premature press report will not affect the confidential discussions that Mr. Wolfensohn considers critical to progress on this issue.

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World Bank Information Kiosk Announcement

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Updated On: Thursday, September 14, 1995

Financial Times Articles on Multilateral Debt

Many of you will have seen today's articles in the Financial Times (FT) regarding a supposed World Bank proposal to set up a fund for multilateral debt reduction. The articles are based on a draft report prepared by a Bank staff task force which unfortunately was leaked. Since the FT articles contain many crucial inaccuracies, this note briefly explains our ongoing efforts in this area, which might well be compromised by this leak. Please direct any questions you may receive on this topic from outside the Bank to Messrs. Tim Cullen (473-1782) and/or John Mitchell (473-2475) in the External Affairs Department.

Over the last twelve months the Bank carried out joint work with the IMF on the nature and extent of a potential multilateral debt problem. This identified a limited number of countries possibly facing such problems. Recently, we also reviewed the existing instruments which the Bank has to help heavily indebted poor countries and options for enhancing these instruments. The Board of Executive Directors and IDA donors were fully informed and consulted on this work.

Based on the feedback that we received, Bank management decided to organize a task force of Bank staff to explore alternative options which would:

i. provide a comprehensive approach to multilateral debt reduction with the goal of an exit strategy for poor countries facing an unsustainable debt situation;

ii. focus on, and be strictly limited to countries with a strong performance track record and a clear need for debt reduction after all existing instrumentalities have been exhausted; and

iii. strictly limit the potential for moral hazard and contagion and not undermine the existing financial policies of the international financial institutions, including the Bank's policy not to reschedule or write off debt.

Staff in the task force developed such an option in the form of a draft report to Bank management. It is this report which the FT has obtained. The articles in the FT are particularly unfortunate because

- they inaccurately suggest that the staff report is contemplating a change in the Bank's fundamental financial policies;

- they misrepresent the status of the report: it remained strictly a draft staff report; although Mr. Wolfensohn wishes to take a hard look at all possible options available to the Bank to address the multilateral debt issue, this report was only designed to explore an option, not to present a management proposal; and

- they may compromise our efforts to find a suitable solution which meets the many important concerns of shareholders and donors; we hope that these and any further press reports will not divert all concerned parties from the substance of this important issue and will not impede progress towards a suitable resolution.

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