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Correspondence - Volume 1

**Folder ID:** 1056272

**Series:** Operations policy and procedures

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**Fonds:** Central Files

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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

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**PUBLIC DISCLOSURE AUTHORIZED**

Third Window Loans

1975/77

I

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Bank Administration and Policy - Third Window Loans 1975 / 1977 Correspondence -  
Volume 1

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CLOSE - OUT SHEET

This file is closed as of March 31, 1983.

For further correspondence, please see Vol. II.

RECORDS MANAGEMENT SECTION

MARCH 31, 1975 TOKYO OFFICE

INCOMING TELETYPE

✓ Kind Window  
a I D A MembershipMr. Gargill  
Mr. J. Adler

125 CARGILL

REURTEL 102. MR. SOEJIMA REQUESTED WE TO TRANSMIT FOLLOWING  
REPLY.

ONE

MOF HAS ISSUED FOLLOWING DIRECTIVE TO ED HORI.

1) JAPAN'S ATTITUDE TO ESTABLISHMENT OF 3RD WINDOW IS BASICALLY  
PASSIVE THEREFORE AT THIS TIME JAPAN HAS NO INTENTION TO  
CONTRIBUTE.

2) IF SOLE PURPOSE OF ADLER'S VISIT IS TO OBTAIN FAVOURABLE  
RESPONSE, CHANCES OF SUCCESS ALMOST NIL. HOWEVER SABAMI DEPUTY  
DIRECTOR GENERAL PREPARED TO SEE HIM MONDAY APRIL 14 AT 11:00 AM.

3) HE SHOULD VISIT ONLY MOF.

TWO

FYI REASONS FOR THIS POSITION WERE EXPLAINED BY MR. 101.983 AS  
FOLLOWS.

1) BANK'S JUSTIFICATION FOR ESTABLISHMENT OF 3RD WINDOW NOT  
FULLY REVEALED.

2) WITH REQUESTS CURRENTLY UNDER REVIEW FOR 3RD WINDOW, TRUST  
FUND AND FUNDS OIL FACILITY STRONG FEELING IS THAT AS SOURCE OF  
FUNDS IS SAME MANAGEMENT SHOULD CONCENTRATE ON IDA LENDING.

JAPAN STRONGLY OPPOSED TO TRUST FUND PROPOSAL AND DO NOT BELIEVE  
THAT SUBSIDY FINANCING PROPOSED BY 3RD WINDOW, IF IT BECOMES A  
PERMANENT FEATURE, CONSTITUTES SOUND BANKING PRACTICE.

3) CONFLICT BETWEEN 3RD WINDOW AND FUTURE IDA REPLENISHMENTS.

4) NON PARTICIPATION OF US.

THREE



MR. SOEJIMA'S COMMENTS QUOTE

DESPITE CURRENT NEGATIVE THINKING EYE RECOMMEND ADLER VISIT<sup>A</sup> JAPAN AS PROPOSED FOR FOLLOWING REASONS.

1) WHILE HE MAY NOT OBTAIN FAVOURABLE RESPONSE THIS VISIT IF HE CAN EXPLAIN, (A) 3RD WINDOW NOT CONSIDERED BY OUR MANAGEMENT TO BE A PERMANENT FEATURE, (B) WHY WITH IDA IV NOT YET FULLY COMMITTED AND EMERGENCY FINANCING PROVIDED BY 3RD WINDOW NOT IMMEDIATELY BENEFITTING MSAC SUCH SCHEME CAN BE JUSTIFIED, (C) ITS ESTABLISHMENT WILL IN NO WAY OVERLAP WITH IDA V. THIS WILL PAVE THE WAY FOR YOUR SUBSEQUENT VISIT FOR DISCUSSIONS AT A HIGHER LEVEL.

2) AS JAPAN DOES NOT WANT TO BE THE ONLY PART ONE COUNTRY OTHER THAN THE US NOT SUPPORTING EYE BELIEVE THAT IF GERMANY, FRANCE AND UK TOGETHER WITH A MAJORITY OF OTHER OECD COUNTRIES PARTICIPATE, THE PRESSURE ON JAPAN TO REVERSE HER CURRENT THINKING WILL BE VERY STRONG.

3) AS AMOUNT INVOLVED IS RELATIVELY SMALL DESPITE TIGHT BUDGET IT COULD BE ACCOMMODATED EITHER IN SUPPLEMENTARY BUDGET LATER THIS YEAR OR IN FY 76 BUDGET.

FOUR

EYE HAVE STRONG IMPRESSION THAT PREFERENCE IN TOKYO IS TO SUPPORT ENLARGED ROLL OF IDA V AND OTHER EFFORTS SHOULD NOT BE PUSHED WHICH WILL RESULT IN JAPANESE MOMENTUM WHICH WE WORKED SO HARD FOR IN FOURTH REPLENISHMENT BEING LOST UNQUOTE.

REGARDS

STEWART

Kuwait - Kuwait Fund  
✓ B A - P - Third Window

For the Record

March 31, 1975

Saad S. El Fishawy

KUWAIT: Mr. McNamara's Visit - March 8, 1975

Meeting with Mr. Abdlatif Y. Al-Hamad, Director General of the Kuwait Fund

Present were Messrs. Al-Hamad, Nasser Al-Sayer, Deputy Director General of the Kuwait Fund, Feisal Al-Khaled, Director of Operations, McNamara, El Fishawy and Burmester.

Mr. McNamara stated that he wanted to discuss three topics: (1) "Third Window" financing facility, (2) increase of OPEC Countries' voting power and capital subscription and (3) the Bank's borrowing program.

(1) "Third Window"

Mr. McNamara said that pursuant to the support given to this lending facility at the meeting of the Development Committee by Kuwait and other countries, he is planning to ask the Executive Board to consider this intermediate financing facility on March 25 (copy of the paper circulated to the Board was handed to Al-Hamad). After approval by the Board in principle, and if there are indications of meaningful support by prospective contributors to the Interest Subsidy Fund, it is planned to hold a meeting in April of the prospective donors. It is hoped that in said meeting agreement would be reached on firm commitments by the donors and on a working scheme which would be presented to the Development Committee at its June meeting. Mr. McNamara said that the level of contributions sought from the OECD Countries and the OPEC Countries does not reflect any burden-sharing formula but merely an assessment of what the prospective contributors could participate in order to initiate as quickly as possible this additional lending facility which is acutely needed by the poorest and most seriously affected of the developing countries. These comprise about 45 countries with a population of about one billion, who are barely clinging to life and trying very hard to stay alive. They are actually suffering from hunger. The OECD Countries are unfortunately not in a mood to contribute substantially to economic aid. Setbacks and economic problems they are presently experiencing led to this psychological state which is not fully justified purely on the basis of economic strength. There is also the underlying feeling that they are contributing 1.5 billion dollars a year for IDA Replenishments. The "Third Window", however, has received support from the Netherlands, United Kingdom and Canada. The Bank is sounding out other OECD and OPEC Countries.

Mr. McNamara then asked Mr. Al-Hamad whether he had touched base with his constituents before the meeting of the Development Committee and thereafter. Mr. Al-Hamad said that he had discussed the scheme with the authorities in Saudi Arabia, Abu Dhabi and Qatar, and that they are in principle in support of the scheme. He had not, however, discussed it with them after the meeting. He knew that Mr. McNamara was going to pay visits to these



- 2 -

countries and he wanted to leave it to him to explain it to them and not to "steal the show". Mr. McNamara asked whether parliamentary approval would be required for Kuwait's contribution. Al-Hamad said that this point was studied within the Kuwait Fund and the conclusion reached was that such an approval would certainly be required. This, however, does not constitute any serious problem as long as the contribution has the government's support. Al-Hamad said that Kuwait strongly supports the "Third Window" lending facility. This, however, is based on the expectation that contributions by OPEC Countries would be matched by contributions from the OECD Countries.

(2) Increase in Voting Power

Mr. McNamara said that he is of the view that the change that took place in the economic strength of Bank members should be reflected in their relative voting power in the Bank. He is of the opinion that the voting power of OPEC Countries as a group should be increased in the Bank to 15%. In the Fund, OECD Countries have opposed any increase above 10%. But in the Bank he is personally convinced that the increase should go up to 15%. He is ready to try hard to steer his way to achieve such an increase for the OPEC Countries in the Bank. It is not going to be easy. He expects the process to be difficult and painful. Nevertheless he is prepared to try. He cannot even start, however, unless he is assured that OPEC Countries, if offered the additional shares, will subscribe to them. Therefore, he was seeking a firm indication that this is the position of OPEC Countries in general and of Kuwait in this particular instance. Mr. Al-Hamad said that this is in his belief Kuwait's position. He was certain that the Prime Minister will personally assure Mr. McNamara of this position in their meeting. He did not know whether this issue came up during the Summit Meeting in Algiers of OPEC Countries. His understanding, however, was that OPEC Countries support this position.

(3) Borrowing Program

Mr. McNamara said that the Bank's borrowing program in 1976 will be in the order of 4 billion dollars. The year before it was 3.6 billion dollars. He expects to be able to borrow from Kuwait 10% of the borrowing program for 1976, i.e. 400 million dollars. Mr. Al-Hamad said that Bank borrowing from the Government of Kuwait along the lines of Bank borrowing from Saudi Arabia would require parliamentary approval. This would be very difficult. The issue was left at that.

SELFishawy/rh

cc: Messrs. McNamara  
Knapp  
Cargill/Kochman  
Benjenk  
Burmester

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

OUTGOING WIRE

TO: REYNAUD

EUROPEAN OFFICE

PARIS

COUNTRY: FRANCE

DATE: MARCH 28, 1975

CLASS OF  
SERVICE: LT

TEXT:  
Cable No.:

441

CARGILL VERY ANXIOUS TO ISSUE ON TUESDAY APRIL 1 INVITATIONS TO PARTICIPANTS  
IN THIRD WINDOW MEETING STOP THEREFORE PLEASE CALL ME NINE O'CLOCK A M  
WASHINGTON TIME TUESDAY APRIL 1 REGARDING STATUS OF AVAILABILITY OF CONFERENCE  
FACILITIES IN PARIS FOR THIRD WINDOW MEETING STOP MEETING DATE CHANGED FROM  
MONDAY APRIL 28 TO TUESDAY APRIL 29 STOP MEETING MAY CONTINUE INTO MORNING  
OF WEDNESDAY APRIL 30 STOP ABOUT 60 PERSONS EXPECTED TO ATTEND WITH APPROXIMATELY  
25 PERSONS TO BE SEATED AT CONFERENCE TABLE STOP REMIND YOU THAT SIMULTANEOUS  
INTERPRETATION ENGLISH FRENCH ARABIC AND SPANISH REQUIRED STOP MOYENS INFORMS  
ME THAT FOUR BOOTHS FOR INTERPRETERS PREFERRED BUT COULD OPERATE WITH THREE

REGARDS

CAPBERT

NOT TO BE TRANSMITTED

AUTHORIZED BY: E.J. Capbert

NAME E.J. Capbert

DEPT. Secretary's

SIGNATURE   
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: Third Window Mtg - Paris


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Cirillo  
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For Use By Communications Section

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(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: 



ORIGINAL (BY COPY)

DISPATCHED

DATE: 1975 MARCH 28

TO: DIRECTOR, FBI

FROM: SAC, NEW YORK

SUBJECT: MURDER OF MARTIN LUTHER KING, JR.

RE: NEW YORK TELETYPE TO BUREAU, MARCH 27, 1975.

MAR 28 9 37 PM 1975  
COMMUNICATIONS  
CO: NEW YORK, NEW YORK

NOT TO BE TRANSMITTED

SECRET

RECEIVED

WE HAVE BEEN BOOING FOR INTERPRETERS REFERRED BUT COULD OBSERVE WITH THREE  
INTERPRETATION ENGLISH FRENCH SPANISH AND SPANISH RECORDED STOP MODERN TALKING  
32 PERSONS TO BE SEATED AT CONFERENCE TABLE STOP REMIND YOU THAT SIMILAR  
OF MEDICALS VIKIT 30 STOP ABOUT 60 PERSONS EXPECTED TO ATTEND WITH APPROXIMATELY  
MONDAY VIKIT 30 TO TUESDAY VIKIT 30 STOP MEETING MAY CONTINUE INTO MONDAY  
EVENING IN PARIS FOR THIRD MINIMUM MEETING STOP MEETING DATE CHANGED FROM  
MONTREAL LINE TUESDAY VIKIT 7 RECORDED STARTS OF VIKIT VIKIT 10 CONFERENCE  
IN THIRD MINIMUM MEETING STOP THEREFORE PLEASE CALL ME NINE O'CLOCK A M  
CANCERT AREA VIKIT 10 ISSUE ON TUESDAY VIKIT 7 INSTRUCTIONS TO BUREAU

Copy 100  
TEXT

COPIES: 100

DATE:

EDUCATION OFFICE

TO: BUREAU

DATE: 3/28/75

RECEIVED  
CLASS OF

DATE: MARCH 28, 1975

ORIGINAL FILE

RECEIVED

RECEIVED

RECEIVED

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OUTGOING WIRE

4214/5

TO: INTBAFRAD  
TOKYO

DATE: MARCH 27, 1975

CLASS OF  
SERVICE: TELEX

COUNTRY: (JAPAN)

TEXT:  
Cable No.:

102  
FOR SOEJIMA

PRIMO HORI IS ADVISING MINFIN THAT BANK IS SENDING ADLER TO JAPAN TO  
EXPLAIN INTERIM THIRD WINDOW OPERATIONS AND TO ASCERTAIN WHETHER JAPAN  
WILL MAKE CONTRIBUTION AND IF SO HOW MUCH STOP HORI IS INQUIRING WHAT  
QUESTIONS LIKELY TO BE RAISED WILL APPRECIATE YOUR FOLLOW UP AND ADVISE  
SEGUNDO PREFERRED TIMING FOR MINFIN DISCUSSIONS APRIL 14/15 BUT SLIGHTLY  
EARLIER DATE POSSIBLE  
TERTIO FOR YOUR BACKGROUND OVERWHELMING MAJORITY OF BOARD ENDORSED THIRD  
WINDOW STOP CONTRIBUTIONS EXPECTED FROM ALL MAJOR OPEC AND MOST OECD  
COUNTRIES EXCEPT US STOP EXCELLENT PROSPECTS FOR REACHING USDOLLARS TWO  
HUNDRED TO TWO HUNDRED FIFTY MILLION TARGET STOP ARRANGING MEETING OF  
POTENTIAL CONTRIBUTORS FOR APRIL 28 IN WASHINGTON OR PARIS  
QUARTO I AM GOING TO VENEZUELA AND IRAN TO OBTAIN PLEDGES FOR CONTRIBUTION  
EXPECT TO BE AWAY FROM APRIL 7 to 17 REGARDS

CARGILL

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME John H. Adler  
Director  
DEPT. Programming and Budgeting

SIGNATURE  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: JHAdler:cbm

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

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Cleared with & cc: Mr. Cargill

For Use By Communications Section

Checked for Dispatch:



ORIGINAL (1st copy)

THADGET:CRM

DISPATCHED

Director  
John H. Adler

MAR 27 9 27 PM 1975  
COMMUNICATIONS

Classified with a cc: Mr. Carter

NOT TO BE TRANSMITTED

CARTELL

EXPECT TO BE AWAY FROM ABBIG 3 TO 12 HOURS

ONARTO I AM GOING TO AMERICA AND IRAN TO OBTAIN PLEDGES FOR CONTRIBUTION  
POTENTIAL CONTRIBUTORS FOR ABBIG 38 IN WASHINGTON OR PARIS

NUMBERED TO TWO HUNDRED FIFTY MILLION TARGET STOP ADVANCING MEETING OF  
COUNTRIES EXCEPT US STOP EXCELLENT PROSPECTS FOR REACHING PROGRESS TWO  
MINDON STOP CONTRIBUTIONS EXPECTED FROM ALL MAJOR OPEC AND MOST OECB  
LEBTO FOR YOUR BACKGROUND OVERWHELMING MAJORITY OF BOARD ENDORSED THIRD  
EARLIER DATE POSSIBLE

SECUNDO PREFERRED TIMING FOR MINER DISCUSSIONS ABBIG 14/15 BUT STRICTLY  
QUESTIONS LIKELY TO BE RAISED WILL APPRECIATE YOUR LOGGON UP AND ADVISE  
WILL MAKE CONTRIBUTION AND IF SO HOW MUCH STOP NOW I AM INQUIRING WHAT  
EXPLAIN INTERIM THIRD MINDON OPERATIONS AND TO ASCERTAIN WHETHER TAVAN  
BBINO NOW I AM ADVISING MINER THAT BANK IS SENDING ADGER TO TAVAN TO  
FOR SUETING

103

COPIES/REMARKS

COPIES/REMARKS (TAVAN)

TOKYO  
INTBAKAD

TELEX  
C. CARTER

MARCH 27 1975

OUTGOING WIRE

PSIAMS

RECEIVED

RECEIVED AND DISPATCHED

RECEIVED

103

Mr. Taro Hori

March 27, 1975

M. Hattori

Mr. Cargill's Visit of March 26, 1975

The following is a resume of the meeting at 1600 hours March 26, 1975 in your office. Present were yourself and Messrs. Kenmochi, Cargill, Adler and myself.

1. Mr. Cargill informed Mr. Hori that in view of the widespread support expressed at the Board discussions of March 25, Management planned to proceed on the following timetable:

(i) Visits to potential donor countries, next two weeks:

Japan: Adler

other visits include

Cargill: Venezuela, Iran

Gaud: Denmark, Norway, Belgium and possibly Sweden

Stern: Germany

(ii) Meeting of representatives of prospective donor countries late April, after the meeting of the OPEC Finance Committee (in Washington or Paris, depending on whether the Committee meets in Caracas or Vienna).

(iii) Preparation of a Board paper to be transmitted to the Development Committee by May 15 for its June meeting.

2. Mr. Cargill requested Mr. Hori to find out whether Mr. Adler's visit would be convenient to the Japanese Government, and also find out on what sort of problems the Government would like elaboration (such as late contributions or administrative arrangements) or further discussion. He thought a visit to the Ministry of Finance would be sufficient, but Mr. Adler would be guided by any suggestions Mr. Hori should make. Mr. Hori agreed to do the necessary.

3. Mr. Hori mentioned that the Ministry would like to have a more convincing justification for the 1 billion additional lending: how the Bank viewed the growth prospects of LDCs, their development aid needs, as well as the shortfall estimates.

MHattori:ed

IBRD

cc: Messrs. Cargill and Adler

✓ South Africa - IDB/IDA P. - M.  
cc B A & P - Third Window  
cc W. AFRICA -

FILES

March 25, 1975

J. Burke Knapp

South Africa

Ambassador Smit of South Africa came in to see me yesterday accompanied by his adviser, Mr. Gerstein. He reported on his recent visit to South Africa where he discussed relations with the Bank with the Prime Minister and the Finance Minister.

Firstly, he said that South Africa would be prepared to contribute to the Third Window subsidy fund, if a reasonable number of OECD countries were prepared to do so. He said that he would be going on to Mr. Gaud to discuss this and I did not press him for an amount.

He also said that South Africa would be very much interested in co-financing projects in African countries with the World Bank or IDA. He said that these operations would be handled by various institutions in South Africa but that we should deal through the South African Treasury. He said that it was quite possible to arrange for financing on concessional terms if this seemed appropriate. He was thinking primarily in terms of parallel financing attached to South African sources of supply but said that they might also consider joint financing with untied funds if they were assured that there would be no discrimination against South African suppliers in the course of procurement. I told him that I would so inform our African departments. (He specifically mentioned Liberia as a possibility, referring to recent discussions between Vorster and Tolbert.)

He also again emphasized the potentialities of South Africa in furnishing technical assistance to other African countries.

cc: Messrs. McNamara  
Cargill  
Gaud  
Chaufournier  
Musain  
Goodman

JDKKnapp:vm



LI OPEC  
✓✓✓ THIRD WINDOW  
UAE

March 24, 1975

His Highness  
Sheikh Hamdan bin Rashid Al Naktoom  
Deputy Prime Minister and Minister  
of Finance, Economy and Industry  
Abu Dhabi, United Arab Emirates

Dear Mr. Minister,

It was a great pleasure to meet with you again in Abu Dhabi. I want to thank you for all the kind hospitality extended to me during my stay in the United Arab Emirates.

I would like to confirm here what I mentioned to you during our meetings that in Kuwait we found strong support for the three main points we discussed there with H.H. the Crown Prince and Prime Minister, Sheikh Jaber Al-Ahmad, and H.E. the Minister of Finance, Abdul Rahman Salim Al-Ateeqy. They welcomed the proposed increase in the voting power of, and required increase of capital subscription by, the OPEC Countries to 15%. They were strong supporters of the "Third Window" lending facility and indicated that Kuwait is prepared to contribute at least 20 Million Dollars to this facility. We are hopeful, however, that Kuwait will contribute its full share of 25 Million Dollars. They also supported the Bank's borrowing program and indicated substantial financial participation in it. We plan to start negotiating specific borrowing transactions in Kuwait by next June.

In Saudi Arabia, we also found strong support from the Minister of Finance, H.H. Prince Mosaad Ibn Abdel-Rahman, and the authorities there, at the highest level, for the three main points we discussed with them. They were in favour of the increase of the voting power of the OPEC Countries to 15%. They further supported the "Third Window" lending facility and the Bank's borrowing program, indicating strong financial participation in each. The exact amounts will be determined some time in April with regard to the "Third Window" and in July with regard to the borrowing program.

In Doha, we were pleased to find the same spirit of support for both proposals.

Furthermore, we are at present engaged in discussions with Venezuela and Iran with regard to the increase of the voting power of OPEC Countries. We are also discussing with them and with several OECD Countries the "Third Window" proposal.

As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", some time next April, and I am looking forward to hearing from you.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in Abu Dhabi.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

SELFishaw/rh

cc: Mr. McNamara's Office (2)  
Mr. Cargill



LI-OPEC  
✓ CC, THIRD WINDOW  
CC QATAR

March 24, 1975

His Excellency  
Sheikh Abdul Aziz Al-Thani  
Minister of Finance and Petroleum  
P.O. Box 83  
Doha, Qatar

Dear Mr. Minister,

It was a great pleasure to meet with you again in Doha and I want to thank you for all the kind hospitality extended to me during my stay in Qatar.

I am pleased to be able to report to you that in Abu Dhabi, where we met with H.H. Sheikh Zayed bin Sultan Al-Nahyan, H.H. Sheikh Hamdan bin Rashid Al Maktoum, the Minister of Finance, and H.E. Sheikh Ahmad Khalifa Al-Sweidi, Minister of Foreign Affairs, they were appreciative of the Bank's positive response to their request to increase the OPEC Countries' role in the Bank by increasing their voting power from about 5% to 15%. They also strongly supported the "Third Window" interest subsidy fund.

I would also like to confirm what I stated during our meetings that we have found strong support in Saudi Arabia from the Minister of Finance, H.H. Prince Mosaed Ibn Abdel-Rahman, and the authorities there, at the highest level, for the three main points we discussed with them. They were in favour of the increase of the voting power of, and required increase of capital subscription by, the OPEC Countries to 15%. They further supported the "Third Window" lending facility and the Bank's borrowing program, indicating strong financial participation in each. The exact amounts will be determined some time in April with regard to the "Third Window" and in July with regard to the borrowing program.

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Furthermore, we are at present engaged in discussions with Venezuela and Iran with regard to the increase of the voting power of OPEC Countries. We are also discussing with them and with several OECD Countries the "Third Window" proposal.

As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", same time next April, and I am looking forward to hearing from you soon.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in Qatar. Please convey my highest respects and warm regards to His Highness the Emir, Sheikh Khalifa bin Hamad Al-Thani.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

SELFishawy/rh

cc: Mr. McNamara's Office (2)  
Mr. Cargill



LI-OPPC  
✓ CC THIRD WINDOW  
CC QATAR

March 24, 1975

The Honorable  
Abdulkadir Qadi  
Director of Financial Affairs  
Ministry of Finance and Petroleum  
P.O. Box 83  
Doha, Qatar

Dear Mr. Qadi,

It was a great pleasure to meet with you again in Doha and I want to thank you for all the kind hospitality extended to me during my stay in Qatar.

I am pleased to be able to report to you that in Abu Dhabi, where we met with H.H. Sheikh Zayed bin Sultan Al-Nahyan, H.H. Sheikh Hamdan bin Rashid Al Maktoum, the Minister of Finance, and H.E. Sheikh Ahmad Khalifa Al-Sweidi, Minister of Foreign Affairs, they were appreciative of the Bank's positive response to their request to increase the OPEC Countries' role in the Bank by increasing their voting power from about 5% to 15%. They also strongly supported the "Third Window" interest subsidy fund.

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As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", some time next April.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in Qatar.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

SELFishawy/rh

cc: Mr. McNamara's Office (2)  
Mr. Cargill



*Third Window*  
cc OPEC  
cc Kuwait

*MAR 24 1975*

His Excellency  
Abdul Rehman Salim Al-Ateeqy  
Minister of Finance  
Kuwait, Kuwait

Dear Mr. Minister,

It was a great pleasure to meet with you again both in Kuwait and later in Saudi Arabia. With you and your colleagues and associates I really feel among sincere old friends. I want to thank you for all the kind hospitality extended to me during my stay in Kuwait.

I am pleased to be able to report to you that we found a strong support in Saudi Arabia from the Minister of Finance, H.H. Prince Mosaed Ibn Abdel-Rahman, and the authorities there, at the highest level, for the three main points we discussed with them.

They were in favour of the increase of the voting power of, and required increase of capital subscription by, the OPEC Countries to 15%. They further supported the "Third Window" lending facility and the Bank's borrowing program, indicating strong financial participation in each. The exact amounts will be determined some time in April with regard to the "Third Window" and in July with regard to the borrowing program.

Again in Abu Dhabi, where we met with H.H. Sheikh Zayed bin Sultan Al-Nahyan, H.E. Sheikh Ahmad Khalifa Al-Sweidi, Minister of Foreign Affairs, and the Minister of Finance, H.H. Sheikh Hamdan bin Rashid Al Maktoom, they were appreciative of the Bank's positive response to their request to increase the OPEC Countries' role in the Bank by increasing their voting power from about 5% to 15%. They also strongly supported the "Third Window" interest subsidy fund.

In Doha, we were pleased to find the same spirit of support for both proposals.

At present we are engaged in discussions with Venezuela and Iran with regard to the increase of the voting power of OPEC Countries. We are also discussing with them and with several OECD Countries the "Third Window" proposal.

- 2 -

As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", some time next April.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in Kuwait.

Sincerely,

(Signed) Robert S. McNamara  
Robert S. McNamara

SElFishawy/rh

cc: Mr. McNamara's Office (2)



## OFFICE MEMORANDUM

*Third Window file*  
*cc Jordan*

TO: Mr. Wolfgang E. Siebeck, Acting Director, EMENA DATE: March 24, 1975

FROM: Nabil C. Faltas, Loan Officer, EMENA CP II C

SUBJECT: JORDAN - Third Window Funding

1. The initial allocation of Third Window money for FY76 does not indicate any appropriation to Jordan. An initial allocation of \$16 million is essential to sustain the major efforts now undertaken to implement the large scale foreign exchange earning mining and industrial projects which are critical to Jordan's long term balance of payments outlook.

Eligibility

2. Jordan is now eligible for Third Window funds on the following basis:

(a) Poverty Criteria: At \$270, its per capita GNP is well below, the \$375 ceiling specified for Third Window financing.

(b) Performance: A major and successful effort is being made to improve sectoral planning and to prepare and initiate the large scale foreign exchange earning projects in phosphate rock, potash, copper and phosphatic fertilizer. Prospects for a self-sufficient economy are promising. The Government has been receptive to our advice and prospects to increase absorptive capacity are good.

(c) Ability to repay: The country's ability to repay is firmly established in the improved export outlook provided by the large scale foreign exchange earning industrial and mining projects now under implementation. However, the scale of investments needed to start these projects is substantial, leading to a significant short-term deterioration in the country's balance of payments: Third Window moneys, as compared to Bank lending, would ease the country's debt servicing capacity during this adjustment period.

(d) Access to Alternative Sources of Capital: The four mining and industrial projects listed above, involve a direct investment of approximately \$500 million, of which the Bank would finance about 10%; the rest would be raised from local and bilateral sources. However, Jordan's access to alternative sources of capital to finance the infra-structural investments needed to support these large scale projects is much more limited. Third Window funding would fill this critical gap.

Proposed Allocation

3. It is proposed to allocate \$16 million of Third Window funds in FY76 to Jordan, largely to finance infrastructural investments needed for the mining and industrial projects. \$12 million would finance the proposed Aqaba Regional Development project and \$4 million would be earmarked to the proposed DFC project. These two projects were originally scheduled for FY77

on the grounds that Bank lending to Jordan could not be justified before then, and IDA financing was not available. However, the Aqaba Regional Development Project will have to be advanced to FY76 since the critical bottleneck to phosphate rock export is the port. The proposed Aqaba Regional Development project involves an expansion of the port facilities to support the mining and industrial sector, the construction of a road to connect the port with the phosphatic fertilizer plant, public utilities for industrial development at Aqaba, and a small tourism component. The feasibility study of the project will be completed in August 1975, and appraisal could be scheduled shortly thereafter.

4. The DFC project is scheduled for appraisal in October 1975. The Bank is also acting as Executing Agency for a UNDP financed study of industrial investment opportunities and industrial estates which will be completed before then. The Government had placed top priority on this project and asked that the IDA funds originally allocated to the proposed Agricultural Credit project in FY76 be reallocated to the DFC project, unless alternative Third Window funding could be allocated to the DFC project. Third Window funding for the DFC project would preserve scarce IDA moneys to the proposed Agricultural Credit Rainfed Farming project which is vitally needed to reduce Jordan's agricultural trade deficit and to support irrigated farming developments in the Jordan Valley.

5. Finally, Third Window funding for Jordan in FY76 would provide a better transition from a totally IDA financed lending program prior to this date, to a "blended" IDA/Third Window Bank financing thereafter.

Cleared in substance and cc: Mr. Vaidyanathan

NCFaltas:ns



22-OPEC  
1st Third Window  
U.A.E.  
March 24, 1975

His Excellency  
Sheikh Ahmad Khalifa Al-Sweidi  
Minister of Foreign Affairs  
The Palace of the Ruler  
Abu Dhabi, United Arab Emirates

Dear Mr. Minister,

It was a great pleasure to meet with you again in Abu Dhabi. I want to thank you for all the kind hospitality extended to me during my stay in the United Arab Emirates.

I would like to confirm here what I mentioned to you during our meetings that in Kuwait we found strong support for the three main points we discussed there with H.H. the Crown Prince and Prime Minister, Sheikh Jaber Al-Ahmad, and H.E. the Minister of Finance, Abdul Rahman Salim Al-Ateeqy. They welcomed the proposed increase in the voting power of, and required increase of capital subscription by, the OPEC Countries to 15%. They were strong supporters of the "Third Window" lending facility and indicated that Kuwait is prepared to contribute at least 20 Million Dollars to this facility. We are hopeful, however, that Kuwait will contribute its full share of 25 Million Dollars. They also supported the Bank's borrowing program and indicated substantial financial participation in it. We plan to start negotiating specific borrowing transactions in Kuwait by next June.

In Saudi Arabia we also found strong support from the Minister of Finance, H.H. Prince Mosaad Ibn Abdel-Rahman, and the authorities there, at the highest level, for the three main points we discussed with them. They were in favour of the increase of the voting power of the OPEC Countries to 15%. They further supported the "Third Window" lending facility and the Bank's borrowing program, indicating strong financial participation in each. The exact amounts will be determined some time in April with regard to the "Third Window" and in July with regard to the borrowing program.

In Doha, we were pleased to find the same spirit of support for both proposals.

Furthermore, we are at present engaged in discussions with Venezuela and Iran with regard to the increase of the voting power of OPEC Countries. We are also discussing with them and with several OECD Countries the "Third Window" proposal.

As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", some time next April.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in Abu Dhabi. Please convey my highest respects and warm regards to His Highness Sheikh Zayed bin Sultan Al-Nahyan.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

SELFishawy/rh

cc: Mr. McNamara's Office (2)  
Mr. Cargill



LE-OPEC  
✓ CC-THEIR WORK  
LE-SHARE 224820

March 23, 1975

His Highness  
Prince Mosaad Ibn Abdel-Rahman  
Minister of Finance  
Riyadh, Kingdom of Saudi Arabia

Dear Mr. Minister,

It was a great pleasure to meet with you again in Riyadh. With you and your colleagues and associates, I really feel among sincere friends. I want to thank you for all the kind hospitality extended to me during my stay in the Kingdom.

I am pleased to be able to report to you that in Abu Dhabi, where we met with H.H. Sheikh Zayed bin Sultan Al-Nahyan, H.H. Sheikh Hamdan bin Rashid Al Maktoom, the Minister of Finance, and H.E. Sheikh Ahmad Khalifa Al-Sweidi, the Minister of Foreign Affairs, they were appreciative of the Bank's positive response to their request to increase the OPEC Countries' role in the Bank by increasing their voting power from about 5% to 15%. They also strongly supported the "Third Window" interest subsidy fund.

In Doha, we were pleased to find the same spirit of support for both proposals.

I would also like to confirm what I already stated during our meetings in Riyadh that we have found in Kuwait strong support for the three main points we discussed there with H.H. the Crown Prince and Prime Minister, Sheikh Jaber Al-Ahmad, and H.E. the Minister of Finance, Abdul Rehman Salim Al-Ateeqy. They welcomed the proposed increase in the voting power of, and required increase of capital subscription by, the OPEC Countries to 15%. They are strong supporters of the "Third Window" lending facility and they indicated that Kuwait is prepared to contribute at least 20 Million Dollars to this facility. We are, however, hopeful that Kuwait could contribute its full share of 25 Million Dollars. They also supported the Bank's borrowing program and indicated substantial financial participation in it. We plan to start negotiating specific borrowing transactions in Kuwait by next June.

Furthermore, we are at present engaged in discussions with Venezuela and Iran with regard to the increase of the voting power of OPEC Countries. We are also discussing with them and with several OECD Countries the "Third Window" proposal.

As I mentioned to you, we hope to be able to convene a meeting, probably in Europe, of the prospective donors to the "Third Window", some time next April.

Once again I would like to express my warmest thanks for the welcome and the hospitality extended to me during my stay in the Kingdom of Saudi Arabia.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

SELFishawy/rh

cc: Mr. McNamara's Office (2)  
Mr. Cargill



# OFFICE MEMORANDUM 1 THIRD WINDOW

TO: Mr. J. Burke Knapp

DATE: March 24, 1975

FROM: Raymond J. Goodman

SUBJECT: Third Window Loans

1. As requested in your memorandum of March 10, Messrs. Fontein, \*Gabriel and I have considered the advantages and disadvantages of making Third Window loans at 4-1/2 percent or nominally at 8-1/2 percent with the actual interest paid by the borrower being 4 points lower. One important factor in arriving at a judgment on the various alternatives is the financial consequences to the three parties involved, namely the Borrower, the Bank and the Interest Subsidy Fund (ISF). We have therefore considered two other factors that are important in this regard, the rate of disbursement of Third Window loans and the level of earnings on investments by the ISF.

## Rate of Disbursement

2. Interest costs under Bank loans are particularly sensitive to the rate at which they are disbursed. In the attached table three different disbursement "profiles" are used. The first is the standard Bank disbursement profile which approximates the one used by P & B in the calculations underlying the Board paper on Third Window loans. It is computed by Controller's Department and is based on actual disbursements as applied to project loans in the current lending program. Secondly, in order to show the effect of quick disbursements on the amounts required to subsidize a given level of Third Window loans, we have used the profile of a loan disbursing evenly over a period of two years; many program loans disburse more quickly than that. Thirdly, we have used a mixed profile in the proportion one dollar of quick disbursing loans to every nine dollars of project loans. This mix corresponds broadly to what may be expected during the current fiscal year. Because of the disproportionately heavy claim they would make on the ISF, it would be important to limit the amount of program or other quick disbursing loans made through the Third Window to 10 percent of the total, or \$100 million. Alternatively -- as suggested in the Board paper -- they could be made on terms which would result in approximately the same amount of subsidy as in the case of a project loan.

---

\* Mr. Gabriel went on home leave March 13, 1975. In his absence, we have had the help throughout of Mr. Hywel Davies from his department.



### Return on ISF Investments

3. The size of the required subsidy for a given level of Third Window loans is also sensitive to the average return earned on ISF investments during their life. The various present values and discount factors shown in the attached table under the heading "ISF" represent the initial level of subsidy and average rate of return required to support a particular subsidy stream. The effect of the rate of return is illustrated in the table by the use of two rates, 8% and 6%. Should the ISF be invested in government securities, then the more conservative 6% return would seem realistic. Because of the importance of obtaining the highest possible level of earnings, the President's report (R75-39) suggests the issuance by the Bank of a special bond in which the contributions to the ISF would be invested. This solution does not take care of the reinvestment of ISF earnings. A similar result could be achieved by using the initial contributions and the earnings of the ISF to purchase maturities of Bank loans at interest rates of 8% or better. Such a scheme would insure an average rate of return of 8%. It would also allow, through periodic purchases and sales of short-term maturities during the disbursement period, currencies in the ISF to be closely matched with those used for disbursement. Since the currencies used for disbursement will not be fully known until the end of the disbursement period, such adjustments through periodic purchases and sales would minimize the risk of losses from changes in exchange rates. Like the issue of a special Bank bond, it would provide between 200 and 250 million dollars for additional Bank lending, but without adversely affecting the Bank's debt-equity ratio. Such a scheme would be somewhat more risky than the issuance of a Bank bond dependent as it would be on Bank borrowers meeting their obligations.

### Alternative Subsidy Arrangements

4. There are essentially five ways of applying the subsidy in order to ensure that the Bank receives payments as if it had made a loan at its standard rate (8-1/2% percent) and the Borrower has the benefit of a four percent subsidy.

Alternative One. The Bank makes an 8-1/2 percent loan to the Borrower, with the Borrower paying 4-1/2 percent interest on the outstanding balance of the loan and the ISF 4 percent.



Alternative Two. The Bank makes an 8-1/2 percent loan to the Borrower, but the Borrower pays interest as if it were a 4-1/2 percent loan. The ISF pays to the Bank the difference between the interest paid by the Borrower and what it would normally receive under an 8-1/2 percent loan.

Alternative Three. The Bank makes an 8-1/2 percent loan to the Borrower whose schedule of interest and principal payments is set up as if it were a 4-1/2 percent loan. The ISF pays the Bank the difference between the level payments of a 4-1/2 percent and an 8-1/2 percent loan.

5. Each of these alternatives would have the same effect on the Bank. The present value of the payment stream to the Bank would be the same in all cases. Third Window loans would be in the same form as standard loans and the Borrower's obligation to pay interest at 8-1/2 percent, if the ISF proved to be insufficient to provide a full subsidy, would be clear. In that event, it would not be necessary to prepare a new amortization schedule. A possible disadvantage would be that the subsidy would not be as "visible" as in the case of a 4-1/2 percent loan.

6. In terms of financial advantage to the Borrower, the first two alternatives are preferable inasmuch as the present value of the payment streams of principal and interest is less and the Borrower has a longer use of the funds. Since he must be assumed to get a greater benefit by employing these funds than the interest cost of the loan (particularly if he is paying in effect only 4-1/2 percent), this is a material consideration. The effect can be seen in the table under the heading Borrower, in which the payment streams under the various alternatives are discounted to their present value using a discount rate of 10 percent, which may be taken as a measure of the minimum economic return on capital that should be expected in a developing country. It may be noted that the long grace period of seven years proposed for Third Window loans tends to minimize the differences between the interest cost to the Borrower of the various alternatives when reduced to their present value. In addition, under the second alternative, the Borrower's payments are smaller in the earlier years than under the first so that from the point of view of cost to the Borrower, the second alternative is the most advantageous. The



third alternative, although less attractive than the first and second, does result in level payments by the Borrower as well as the ISF.

7. It is also possible to devise two other alternatives under which the present value of the payments received by Bank would be either greater or less than under a standard loan. For example:

Alternative Four. The Bank makes a 4-1/2 percent loan to the Borrower. The ISF pays the Bank the difference between the interest stream received from the Borrower and the stream of interest it would receive under an 8-1/2 percent loan.

Alternative Five. The Bank makes a 4-1/2 percent loan to the Borrower, with the ISF paying 4 percent on the outstanding balance of the loan.

Under Alternative Four, the Borrower makes level payments and incurs the same financial cost as in Alternative Three. The Bank would actually be better off than under a standard 8-1/2 percent loan because it would receive payments of principal more quickly. This alternative is most costly to the ISF (same as Alternative Two). The fifth alternative, used by P&B in its calculations for the Third Window paper, also has the Borrower making level payments at the same financial cost as in Alternative Three, but the Bank would be worse off than under a standard 8-1/2 percent loan because the faster payment of principal is more than offset by the lower level and slower rate of interest payment. This alternative is least costly to the ISF. Using the disbursement and other assumptions of this paper, which are somewhat different from those used by P&B, the cost to the ISF of the subsidy payments under the suggested mix of project and program loans, discounted at 8 percent, would be \$224 million.

#### Conclusion on Subsidy Arrangements

8. We have discarded alternative four and five on the ground that the Bank's receipts from loans should not be affected one way or another by the operation of the ISF. The effect of the remaining three alternatives on the Bank is the same as if it made an 8-1/2 percent loan without subsidy. As between the ISF and borrowers, the question is whether we want to benefit individual recipients of Third Window loans or to support the maximum dollar volume of lending. We recommend in favor of the latter, and therefore propose alternative three, which has the added advantage of providing for level payments or receipts among the three parties.

cc: Messrs. Broches/Nurick  
Cargill  
Adler/Wood  
Gabriel/Chang  
Gaud  
Hittmair

Messrs. Stern  
Fontein  
Davies



A. EXPLANATION OF TABLE

Loan  
Characteristics

One billion dollars principal; 25 year maturity;  
7 year grace period; semi-annual payments; interest  
of 8-1/2% or 4-1/2%.

Project Loans

Standard Disbursement Profile 2/3/6/20/29/23/15/2 percent,  
years 1 through 8.

Program Loans

Level disbursement over two years.

Mixed Loans

Project loans 90%/Program loans 10%.

Alternative I

Bank makes an 8-1/2% loan to the Borrower with the  
ISF subsidizing interest by paying 4% on the  
outstanding balance of the loan.

Alternative II

Bank makes an 8-1/2% loan to the Borrower who pays  
interest as if it were a 4-1/2% loan with the ISF  
making up the difference between the 4-1/2% and  
8-1/2% interest streams.

Alternative III

Bank makes a 8-1/2% loan to the Borrower, with the  
ISF subsidizing the difference between level payments  
of principal and interest of a 4-1/2% loan and an  
8-1/2% loan.

Alternative IV

Bank makes a 4-1/2% loan to the Borrower with the  
ISF making up the difference between the 4-1/2% and  
8-1/2% interest streams.

Alternative V

Bank makes a 4-1/2% loan to the Borrower, with the  
ISF subsidizing interest by paying 4% on the  
outstanding balance of the loan.

B. TABLE: ANALYSIS OF THIRD WINDOW ALTERNATIVES

All Amounts in Millions of Dollars

Payments and Discounted Present Values from the Standpoint of:	Alternative I	Alternative II	Alternative III	Alternative IV	Alternative V
<u>The ISF (-)</u>					
Individual Installments	From 20 to 1	From 20 to 1	Level 14	From 20 to 1	From 20 to 1
Total Payment	471	517	517	517	430
Discount Rate	8% 6%	8% 6%	8% 6%	8% 6%	8% 6%
Present Value of Project Loan Payment Stream	232 288	245 305	223 282	245 305	213 261
Present Value of Program Loan Payment Stream	347 409	360 426	338 403	360 426	328 382
Present Value of Mixed Loan Payment Stream	244 300	256 317	236 294	256 317	224 273
Rating (ascending order of cost)	(3)	(4)	(2)	(4)	(1)
<u>The Bank (+)</u>					
Individual Installments	Level 54	Level 54	Level 54	From 60 to 41	From 60 to 41
Total Payment	2,001	2,001	2,001	2,001	1,914
Discount Rate	8% 6%	8% 6%	8% 6%	8% 6%	8% 6%
Present Value of Project Loan Payment Stream	742 955	742 955	742 955	764 978	732 934
Present Value of Program Loan Payment Stream	986 1,212	986 1,212	986 1,212	1,008 1,235	976 1,191
Present Value of Mixed Loan Payment Stream	766 981	766 981	766 981	788 -1,004	756 960
Rating	Normal	Normal	Normal	Quicker Repayment	Slower Repayment
<u>The Borrower (-)</u>					
Individual Installments	From 34 to 53	From 34 to 53	Level 40	Level 40	Level 40
Total Payment	1,530	1,484	1,484	1,484	1,484
Discount Rate	10%	10%	10%	10%	10%
Present Value of Project Loan Payment Stream	395	386	406	406	406
Present Value of Program Loan Payment Stream	518	509	529	529	529
Present Value of Mixed Loan Payment Stream	407	398	418	418	418
Rating	Intermediate	Least Costly	Most Costly	Most Costly	Most Costly

Note: Individual Installments and Total Payment refer to the installments of principal and interest paid during the amortization period of the loan. Present values also include payments of interest during the grace period.



## OFFICE MEMORANDUM

*Third Window*

TO: Mr. J. Burke Knapp

DATE: March 21, 1975

FROM: Gregory B. Votaw, Acting Regional Vice President  
East Asia and PacificCONFIDENTIALSUBJECT: Third Window - Illustrative Allocations

1. I have noted Mahbub's memo of March 15 and realize that allocations are still illustrative. This note is merely to take note of the fact that major revisions of lending programs for Korea and perhaps Papua New Guinea may be proposed in CPP's during the next few months; if these are agreed by you, some modification of Third Window "allocations" might also be considered. In this sense allocations "pro rata" based on currently approved lending programs "favors" those for whom the CPP review has occurred recently, but I would agree with Mahbub that there is no simple way out of that and also no need to fuss so long as tables are merely illustrative.

2. We continue to work on lending programs as approved and from our knowledge of projects in the pipeline believe we can absorb Third Window implications (including "indirect" effect on Malaysia) without difficulty.

DECLASSIFIED

JUN 05 2025

WBG ARCHIVES

cc: Messrs. Mahbub ul Haq  
Bernard R. Bell (o/r)

GBVotaw:go

Para. 38

RISK OF INTEREST RATE CHANGES

One method suggested for avoiding the risk to the interest subsidy fund of future changes in interest rates is for the Bank to provide the subsidy fund with an instrument which guarantees a pattern of payments over the next 25 years designed to match the time profile of the subsidy fund's own obligations. Were the Bank to do this, it would implicitly be offering the subsidy fund a pre-determined interest rate (namely 8.25%) at which to re-invest "surplus" interest income generated in the first few years of the Third Window. The question may arise as to whether the Bank is making an unreasonable sacrifice in offering such a pre-determined re-investment rate.

The following table shows the income and payments for the subsidy fund over the period when the cumulative "surplus" investment income exceeds the cumulative subsidy payments required of the fund. Essentially the Bank guarantees a re-investment rate of 8.25% for whatever its average cost of borrowing in FY76 might be) for \$17 million borrowed in FY77, \$13 million borrowed in FY78 and \$7 million borrowed in FY79. Total interest income on re-invested "surplus" earnings is about \$15 million. The cost to the Bank could only exceed \$5 million (over a 7 year period) if the Bank's average cost of borrowing were to fall by one-third or more (to below 5.5%) by FY77 and remain at or below that level for the following three years. This would not seem to be an unreasonable risk for the Bank to incur.

Interest Income and Subsidy Payments  
During Period of "Surplus" in Subsidy Fund

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
Income From Invested Contributions @8.25%	18.34	18.34	18.34	18.34	18.34	18.34	18.34	18.34
Income from Reinvested Interest @8.25%	-	1.40	2.50	3.07	3.10	2.61	1.72	.53
Subsidy Payments Required	1.40	6.40	13.90	21.10	27.30	31.80	34.50	35.10
"Surplus" Income	16.94	13.34	6.94	.31	(5.86)	(10.85)	(14.44)	(16.23)
Cumulative "Surplus"	16.94	30.28	37.22	37.53	31.67	20.82	6.38	-

P & B  
3/19/75



BACK-UP NOTE #20

Para. 40

EFFECT OF VARIATIONS IN DISBURSEMENT SCHEDULE

Variations in the rate of disbursement have a significant effect on the amount of the required subsidy fund for a \$1 billion Third Window. If disbursement in the first 7 years are 10% faster than normal (Case C, in the table below), the needed subsidy fund increases from \$225 million to \$235 million. A six-year disbursement schedule, which is about 20% faster than the average, would call for a \$242 million subsidy fund (Case B).

Effect of Variations in Disbursement Schedule  
on Subsidy Fund Required for \$1 billion in  
Third Window Loans

Year	Disbursements (US \$ m)				
	Avg. IBRD	Case A	Case B	Case C	Case D
1	20	40	25	20	15
2	150	300	180	165	120
3	210	420	250	230	170
4	200	240	240	220	160
5	160		190	180	130
6	110		115	120	70
7	60			65	50
8	30				50
9	50				50
10	10				50
11					50
12					50
13					35
Total	1000	1000	1000	1000	1000
Subsidy Fund Required	\$225.5	\$267.7	\$242.1	\$235.0	\$198.9

P & B  
3/19/75

Mr. Maurice Bart

March 21, 1975

Martijn J. W. M. Pajmans

Implications of Third Window for FY76 Allocations

1. We have a number of questions on the changes in the country allocation of Bank Group lending in FY76 following the availability of Third Window funds that are shown in Mr. Haq's memo to Mr. McNamara dated March 15.

2. It is difficult to understand why PDRY with an income per capita of \$100, one of the MSA countries and with relatively poor access to sources of capital, should have no change in its IDA allocation. Also, Egypt gains an additional \$5 million only while losing in this process \$25 million of IDA funds. The suggested (illustrative) allocations for FY76 for PDRY and Egypt are, therefore, challenged on country grounds in memos from the Program Division concerned, (Attachments I & II). A revision in the figures shown for Afghanistan in Mr. Haq's memo is also necessary to reflect the decision taken at the last management review of the CPP (Attachment III). It should also be pointed out that the CPP for Portugal will propose an \$80 million program for FY76. Mr. Haq's memo shows a lending program of \$60 million.

3. More general issues also arise from the viewpoint of CPD I which raise doubts about the logic of the whole exercise. The attached table, using data given in Mr. Haq's memo, shows that the increase in the volume of Bank Group lending to EMENA CPD I countries, following the Third Window is less than half in percentage terms of the average increase for all countries. In particular, in the case of countries with per capita incomes below \$200 and between \$201 and \$375, the percentage increase in EMENA CPD I countries is less than one-fourth of the average increase for all member countries in the same income brackets. In absolute terms, the volume of Bank Group lending to CPD I countries with per capita income up to \$375, is shown to increase by only \$7 million following the Third Window as compared to an increase of nearly \$600 million for all such member countries. Of the four countries that fall in this group in EMENA CPD I, one (YAR) gets additional IDA of \$2 million, another (Egypt) gets \$100 million in Third Window funds but loses \$95 million of IDA and IBRD funds and two (PDRY and Afghanistan) receive nothing.

4. Considering the fact that the bulk of funds for subsidizing Third Window lending are expected to come from surplus countries in EMENA CPD I, and the fact that these surplus countries (e.g. Saudi Arabia, Iran and Kuwait) are closely interested in supporting development in countries like Egypt, YAR and Afghanistan (and in the case of Kuwait, PDRY), the absence of practically any advantage from the addition of the Third Window to these countries, could be counter-productive to the whole exercise.

Attachments  
VDubey:cb

cc: Messrs. Karaosmanoglu, Maiss, Asfour, Köpp



Table 1: CHANGES IN BANK GROUP LENDING PROGRAM WITH THIRD WINDOW

	<u>IBRD</u> (-----)	<u>IDA</u> (-----)	<u>Third Window</u> \$ million (-----)	<u>Total</u> (-----)	<u>Percent</u> (Increase of Total Lending)
I. Countries with Per Capita Income < \$200					
All Countries	-245	+59	+594	+408	18.1
EMENA CPD I	..	+ 2	..	+ 2	4.3
II. Countries with Per Capita Income \$201-\$375					
All Countries	-169	-59	+406	+178	10.7
EMENA CPD I	- 70	-25	+100	+ 5	2.32
III. Countries with Per Capita Income > \$375					
All Countries	+414	..	..	+414	18.4
EMENA CPD I	+ 44	..	..	+ 44	7.9
IV. Total					
All Countries	0	0	+1000	+1000	15.1
EMENA CPD I	-26	-23	+100	+51	6.3

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Source: Mr. Haq's memo to Mr. McNamara, March 15, 1975, Table 3.

Mr. Edmond Y. Asfour

March 18, 1975

Khalid Ikram

The "Third Window" and Egypt

1. The proposal to substitute a blend of IDA plus IBRD plus "Third Window" in place of the current mixture of IDA plus IBRD, represents an attempt to improve the average concessionality of the lending to Egypt without materially affecting the volume. There are indeed strong reasons for softening the average terms of credits to Egypt, but these should go with a different blend from that recommended, or with an increase in the total volume, or both.
2. Egypt's public external civilian debt disbursed and outstanding at September 30, 1974 is estimated at \$2.7 billion. But, in addition to this, there was short-term public debt of about one billion dollars and another \$1.25 billion of non-resident deposits at the Central Bank. The most recent economic mission was explicitly concerned with the size and structure of the debt and the question of Egypt's creditworthiness. It concluded that, in addition to measures aimed at rapid export growth and sound investment, a proper debt management policy was a factor in establishing the country's creditworthiness (paragraph 96). The economic report recommended, *inter alia*, that Egypt should aim at lengthening the average maturity of her debt, and seek, in cooperation with foreign governments and international agencies, agreement on a lending program on concessionary terms (paragraph 99). Thus, the economic mission highlighted a weakness in the Egyptian debt structure -- i.e. having too much of a short-term element -- as an important area in the creditworthiness picture that required rectification.
3. In these conditions, IDA credits with a maturity of 50 years (including 10 of grace) would clearly improve the debt profile more than Third Window funds with a maturity of only 25 years (including 7 of grace). Moreover, IDA funds carry only a commitment charge of 0.75 percent, while Third Window money comes at 4.5 percent interest. Taking all the terms into account, IDA gives a grant element of around 85 percent, compared to about 42 percent for Third Window.
4. The replacement of IDA by Third Window may also make the Egyptian authorities uneasy because, as presently conceived, the Third Window exercise is a one-shot affair (for only one year). Switching from IDA to Third Window would also worsen the time-profile of the debt. Moreover, as Third Window terms have only half the grant element of IDA, even replacing IDA funds by double that amount of Third Window may not persuade the Egyptian authorities that they have really gained anything (but have added twice the amount to their indebtedness).



5. The substitution of less concessional funds for IDA credits could also have sensitive, and unfortunate, effects on some other countries in the region, e.g. Saudi Arabia, that are committed to Egypt's economic development and are also expected to contribute to the interest subsidy for the Third Window. These countries might feel that their contributions were being used to enable the Part I countries and the Bank to cut down their concessional (IDA) funds to Egypt, rather than add new concessional (Third Window) aid. This could be interpreted as a drawing back from further assistance to Egypt.

6. It is, therefore, proposed that IDA credits to Egypt not be reduced, and that Third Window funds be substituted for IBRD as far as possible. Alternatively, if Third Window money is used to replace a part of both IDA and IBRD loans, then a substantial increase in the total lending to Egypt on concessional terms be shown. Thus, either of the alternatives A or B below would be acceptable.

	<u>IDA</u>	<u>IBRD</u> (\$ million)	<u>TW</u>	<u>Grant</u> <u>Element</u> (%)	<u>Aid</u> <u>Per Capita</u> (\$)
Existing	65	150	-	32	5.63
A	65	75	75	43	5.63
B	50	75	150	41	7.20
C	40	80	100	38	5.76

- Notes: (1) A 1976 population of 38.2 million has been used.  
 (2) The IBRD lending has been taken at 22 years of maturity, including 4 of grace, at an interest rate of 8.5 percent.

Cleared with & cc: Messrs. Karaosmanoglu, Dubey,

cc: Messrs. Pajmans, Maiss

KIkram/mj

Mr. Edmond Y. Asfour

March 21, 1975

Khalid Ikram

The IDA Reallocations and the People's Democratic Republic of Yemen (PDRY)

Now that Third Window funds are available for some of the relatively better-off developing countries (i.e. those with a per capita income of over \$200), it is proposed to transfer a part of their IDA allocations to the relatively worse-off countries. In this context, it is surprising that the IDA allocation for PDRY for FY76 is kept unchanged at \$6 million. In fact, there are several reasons for arguing that IDA allocations to the PDRY be increased:

- (1) The PDRY is one of the poorest countries in the world, with an estimated per capita income of \$100 and with no significant natural resources. For the first three years after obtaining its independence, its per capita income actually declined by about 30 percent following the withdrawal of the British base and the closure of the Suez Canal. It would only be equitable that the PDRY be given an allocation that was at least equal to the average increase in the total lending to the "under \$200 per capita" group.
- (2) Moreover, the PDRY has been especially hard hit by the recent price increases in the world economy. On an assessment of the deterioration in its current balance, its modest growth prospects and its heavy dependence on aid at concessional terms, it has been classified by the UN as one of the Most Seriously Affected countries. It is, therefore, even more surprising that while the proposals under review would result in an increase of 25 percent in total lending (IDA plus Bank plus Third Window) to the MSA group, no increase is envisaged in the PDRY's allocation.
- (3) The PDRY has relatively poor access to other sources of capital. It used to obtain the bulk of its aid from socialist countries, and it is only recently that the Government has launched a number of initiatives to mobilize foreign aid from other sources (including Arab countries). These initiatives are likely to bear full fruit only after some time.
- (4) The current lending program envisages no IDA lending in FY77. Consequently an increase in the IDA allocation in FY76 following on the Third Window exercise would compensate for this gap in time profile of IDA commitments in PDRY.

Cleared with & cc: Mr. Dubay  
cc: Messrs. Pajmans, Karaosmanoglu, Maiss  
KIkram/nj



## OFFICE MEMORANDUM

TO: Mr. Martijn J.W.M. Paijmans, Director,  
Country Programs Department 1, EENA Region  
FROM: Hans-Eberhard Küpp, Division Chief  
SUBJECT: Third Window -- Afghanistan

DATE: March 20, 1975

The tables showing the illustrative allocations of Bank Group lending by countries for FY76, done in connection with the Third Window exercise show IDA lending to Afghanistan unchanged with or without the Third Window at \$24 million.

I would like to point out that the lending program for FY76 approved at the last management review was \$30 million, including \$10 million for supplementary financing. Though it is likely that we could use more than \$20 million for new projects in FY76, I am not yet in the position to substantiate the additional needs pending a more thorough review, especially of the power project scheduled for FY76. The with and without Third Window figures for Afghanistan should thus at least be corrected to \$30 million.

If the Third Window operation is repeated in FY77, we would argue for an increase in the proposed IDA lending to Afghanistan. According to the current program, IDA lending in FY77 would drop to \$20 million and Afghanistan, one of the LLDC's, would have a strong claim on additional IDA funds released in a repeater Third Window exercise.

cc: Mr. Dubey ✓

HEKüpp:orp

Third Window

Mr. J. Burke Knapp

March 20, 1975

Hans A. Adler, Acting Vice President, EAN

Third Window Allocations

1. The Eastern Africa Region has no disagreement with the approach to the illustrative Third Window allocations in Mr. Haq's memorandum to Mr. McNamara of March 15, 1975. We also agree generally with the allocation to Eastern Africa.

2. Since Mr. Haq's memorandum is not intended to take account of recent changes in Bank Group lending programs for 1976, we would like to point out that the figures in Table 3 of his memorandum should not be interpreted as having the agreement of the Regions as regards the size of proposed IBRD/IDA lending in that year. Particularly with regard to IBRD, we are expecting to lend considerably more to Kenya and Tanzania in 1976 than those figures suggest (possibly but not necessarily at the expense of the EAC), and we do not quite agree with the evaluation of creditworthiness and exposure underlying Mr. Haq's suggested IBRD reductions for these countries. Depending on the political situation of EAC, we may also wish to reallocate part of the proposed Third Window allocation for EAC to Tanzania and Kenya. We expect that these issues will be examined in the regular course of CPP reviews.

3.

Cleared with and cc: Messrs. Loh, Hornstein

cc: Mr. Husain (o/r)  
Mr. Haq

RHablutzel/HAAdler:cba



Mr. Edmond Y. Asfour

March 18, 1975

Khalid Ikram

The "Third Window" and Egypt

1. The proposal to substitute a blend of IDA plus IBRD plus "Third Window" in place of the current mixture of IDA plus IBRD, represents an attempt to improve the average concessionality of the lending to Egypt without materially affecting the volume. There are indeed strong reasons for softening the average terms of credits to Egypt, but these should go with a different blend from that recommended, or with an increase in the total volume, or both.
2. Egypt's public external civilian debt disbursed and outstanding at September 30, 1974 is estimated at \$2.7 billion. But, in addition to this, there was short-term public debt of about one billion dollars and another \$1.25 billion of non-resident deposits at the Central Bank. The most recent economic mission was explicitly concerned with the size and structure of the debt and the question of Egypt's creditworthiness. It concluded that, in addition to measures aimed at rapid export growth and sound investment, a proper debt management policy was a factor in establishing the country's creditworthiness (paragraph 96). The economic report recommended, inter alia, that Egypt should aim at lengthening the average maturity of her debt, and seek, in cooperation with foreign governments and international agencies, agreement on a lending program on concessionary terms (paragraph 99). Thus, the economic mission highlighted a weakness in the Egyptian debt structure -- i.e. having too much of a short-term element -- as an important area in the creditworthiness picture that required rectification.
3. In these conditions, IDA credits with a maturity of 50 years (including 10 of grace) would clearly improve the debt profile more than Third Window funds with a maturity of only 25 years (including 7 of grace). Moreover, IDA funds carry only a commitment charge of 0.75 percent, while Third Window money comes at 4.5 percent interest. Taking all the terms into account, IDA gives a grant element of around 85 percent, compared to about 42 percent for Third Window.
4. The replacement of IDA by Third Window may also make the Egyptian authorities uneasy because, as presently conceived, the Third Window exercise is a one-shot affair (for only one year). Switching from IDA to Third Window would also worsen the time-profile of the debt. Moreover, as Third Window terms have only half the grant element of IDA, even replacing IDA funds by double that amount of Third Window may not persuade the Egyptian authorities that they have really gained anything (but have added twice the amount to their indebtedness).



5. The substitution of less concessional funds for IDA credits could also have sensitive, and unfortunate, effects on some other countries in the region, e.g. Saudi Arabia, that are committed to Egypt's economic development and are also expected to contribute to the interest subsidy for the Third Window. These countries might feel that their contributions were being used to enable the Part I countries and the Bank to cut down their concessional (IDA) funds to Egypt, rather than add new concessional (Third Window) aid. This could be interpreted as a drawing back from further assistance to Egypt.

6. It is, therefore, proposed that IDA credits to Egypt not be reduced, and that Third Window funds be substituted for IBRD as far as possible. Alternatively, if Third Window money is used to replace a part of both IDA and IBRD loans, then a substantial increase in the total lending to Egypt on concessional terms be shown. Thus, either of the alternatives A or B below would be acceptable.

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- Notes: (1) A 1976 population of 38.2 million has been used.  
 (2) The IBRD lending has been taken at 22 years of maturity, including 4 of grace, at an interest rate of 8.5 percent.

Cleared with & cc: Messrs. Karaosmanoglu, Dubey, Durney

cc: Messrs. Pajmans, Maiss

Kikram/mj



Third Window

Mr. Hans Adler

March 17, 1975

Rudolf Hablutzel

Third Window Allocations

1. I have looked at Mr. John Adler's memorandum of March 14, 1975, which elaborates on the "P&B formula" for Third Window allocations. I agree with what you said last Thursday, namely, that such a formula would be too rigid and would not do justice to individual country situations.

2. From a closer look at the hypothetical effects of that formula on allocations to East Africa, I find that with respect to IDA there would practically be no difference between the Haq proposal and the P&B proposal. We have no countries with per capita above \$200 receiving IDA, with the marginal exception of Mauritius where we have a residual of \$3 million in the program (which has been struck off by Mr. Haq).

3. With regard to IBRD, the P&B proposal is to replace IBRD lending to all of the poorest countries by Third Window. If this were done, we could expect to get \$240 million Third Window allocations to borrowers below \$200 per capita (Malawi, Tanzania, Madagascar, EAC, Kenya and Sudan). This would be \$92 more than proposed by Mr. Haq. However, the Haq proposal and our own proposal imply an increase in total lending (both IBRD and Third Window) to these countries to \$279 million; the P&B proposal does not suggest any additionality of Third Window lending at all and, therefore, by using the P&B formula we would get a smaller program consisting exclusively of Third Window funds. Details are set out below.

4. Regarding countries with more than \$200 and up to \$375 per capita, P&B suggests that all or part of IBRD should be replaced by Third Window funds wherever the country is considered a marginal case for IBRD exposure. I think that we do not have any such cases. Only Zambia, Mauritius and Swaziland are in that income bracket.

	<u>Without TW</u>	<u>P&amp;B</u>	<u>DPS With TW</u>	
	<u>IBRD</u>	<u>TW</u>	<u>TW</u>	<u>IBRD</u>
Ethiopia	-	-	-	-
Malawi	6	6	10	-
Tanzania	30	30	40	-
Madagascar	54	54	20	34
EAC	65	65	18	65
Kenya	65	65	40	30
Sudan	-	20	20	-
	220	240	148	129
			279	1/

1/ Does not take account of \$22 million additional IDA allocations proposed by DPS.

cc: Messrs. Horsntein, Loh

RH Hablutzel/rso

<b>ROUTING SLIP</b>		<b>DATE</b> March 18, 1975	
<b>NAME</b>		<b>ROOM NO.</b>	
Mr. Goodman			
<b>APPROPRIATE DISPOSITION</b>		<b>NOTE AND RETURN</b>	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
<b>REMARKS</b>  <p><u><b>CONFIDENTIAL</b></u></p> <p>As suggested by Mr. Knapp, I am circulating the attached memorandum to you on a confidential basis.</p>			
<b>FROM</b> Mahbub ul Haq		<b>ROOM NO.</b> D-450	<b>EXTENSION</b> 2781



OFFICE MEMORANDUM *THIRD WINDOW*

TO: Mr. Robert S. McNamara

DATE: March 15, 1975

FROM: Mahbub ul Haq, Director, PP&PR *gmv*SUBJECT: Implications of Third Window for FY76 Allocations

1. The attached tables present an illustrative allocation of \$1 billion of Third Window funds. The starting point was the FY76 lending program as shown in P&B Table IV, modified for the latest CPP decisions. An earlier draft was reviewed by Mr. Knapp with the Regional Vice Presidents and P&B and the comments at the meeting have been incorporated in this revision.

2. The principal results, summarized in Table I, are:

- 59% of the Third Window lending goes to countries with per capita incomes below \$200.
- MSAs receive 72% of the Third Window allocations.
- 95% of IDA funds are now allocated to the group below \$200 per capita.
- \$364 million of Bank lending is shifted from countries with marginal creditworthiness (e.g. India, Ghana, Tanzania) to borrowers above \$375 which are better risks.
- The increase in lending volume is highest to the poorest group (25%) and decreases progressively to the higher income groups (to 13% for the over \$375 group). The increase in lending volume for the MSAs (26%) is much higher than the average increase (16.5%).
- Of the total increase of \$435 million in the grant equivalent as a result of \$1 billion of additional Third Window lending, the poorest countries below \$200 will get 66% (with MSAs getting 73%), \$200-\$375 group 25% and over \$375 group 9%.
- All country groups benefit substantially from the introduction of Third Window lending. For instance, there is a 19% increase in Bank Group lending to Latin America, mainly through reallocation of IBRD, even though the region receives only five percent of Third Window resources.

3. The attached illustrative allocations are based on the following broad principles:

- (a) A list of countries with per capita income below \$375 but which have minimum creditworthiness was established (see

Table 2) in consultation with the Regions. In allocating funds to the eligible countries, account was also taken of poverty, performance and capital availability from other sources.

- (b) In considering various trade-offs between Third Window and IBRD and IDA funds, a guiding principle was that the grant equivalent (grant element x volume) in each country should either increase or at least remain the same; the extent of increase to depend on the need for concessional resources and absorptive capacity.
- (c) The trade-offs between Third Window and IDA were based on the following considerations:
  - (i) Replace IDA lending to countries above \$200 with Third Window funds, to release additional IDA funds for the poorest countries, except in special cases, which are (1) selected MSA countries (Cameroon, Senegal, Ghana) and (2) Egypt and Jordan because of possible special circumstances. However, these two cases should be reviewed.
  - (ii) IDA resources thus released amounted to \$59 million. They were all allocated to:
    - \$25 Bangladesh
    - \$15 Sri Lanka
    - \$19 LLDCs, including Sahel

This essentially reflects the judgement that this is the maximum feasible for the LLDCs and Bangladesh in terms of absorptive capacity in the short-run. However, to the extent this constraint can be relaxed, additional IDA could be released (1) from Egypt and Jordan and (2) from within the under \$200 countries, principally India and Pakistan. In both cases, an equal or greater amount of grant equivalent could be made available from Third Window funds.

- (d) The trade-offs between Third Window and IBRD were based on the following considerations:
  - (i) No IBRD lending to non-oil exporting countries below \$200 per capita except where there has been a clear determination of creditworthiness capacity. This latter category includes only Malagasy Republic, Kenya, Sierra Leone and the E.A.C.



March 15, 1975

- (ii) For India and Pakistan, Third Window funds can be substituted for IBRD rollover.
- (iii) IBRD lending to LLDCs and MSAs between \$200-\$375 to be minimized by substituting Third Window; the degree of substitution to be based on country assessment of creditworthiness.
- (iv) About \$364 million of IBRD funds (on a pro-rated basis) are thereby released for reallocation to countries above \$375. These funds are allocated to countries between \$375-\$800. Higher income countries have been excluded on principle. Within this group, no increases were allowed over the previously approved level for oil exporting countries and the others received a pro rata increase in the approved FY76 program.

4. These broad principles were applied through a country-by-country review, in consultation with regional staff, which included an assessment of the need for concessional assistance, creditworthiness for IBRD or Third Window lending or for a blend of both, economic performance and prospects, availability of projects pipeline, and likely availability of assistance from other sources. However, we did not take account of other pending programming decisions. These include the use of the reserve allocation for IDA (\$77 million), the over programming on the Bank side, and such country issues as the appropriate level of lending to Turkey, Algeria and Portugal, and some possible major IDA slippage in Ethiopia, Laos and Viet-Nam. Only those programming questions were taken up which may be affected by the introduction of the Third Window.

5. Because this is a one-year operation, the allocations take into account the existing project pipeline, which constrains the additional amount which can be allocated to some of the smaller and poorest countries. In a longer time perspective, this constraint could be relieved by a reallocation, and possible increase, of staff resources.

- Attachments: Table 1 - Summary of FY76 Bank Group Lending Programs, by Income Groups, with and without Third Window
- Table 2 - Illustrative Third Window Allocations by Country
- Table 3 - Illustrative Allocations of Total Bank Group Assistance by Country with and without Third Window
- Table 4 - Comparison of Bank Group Allocations by Region, with and without Third Window

cc and cleared with: Mr. Stern  
cc: Messrs. Knapp, Cargill (o/r), Chenery, Adler

Table 1

SUMMARY OF FY1976 BANK GROUP LENDING PROGRAM WITH AND WITHOUT THIRD WINDOW<sup>a/</sup>

Country Groups by Level of Income	IBRD		IDA		Third Window	TOTAL		Net Increase in Total Assistance		Grant Equivalent <sup>b/</sup>		
	Without TW	With TW	Without TW	With TW		Without TW	With TW	\$	%	Without TW	With TW	Increase \$
Below \$200 p.c. <sup>c/</sup>												
\$ millions	306	91	1481	1543	594	1787	2228	441	24.7	1308	1595	287
% of Total	6.9	2.1	91.1	95.0	59.4	29.4	31.5	44.1		69.3	68.7	66.0
\$200 - \$375 p.c. <sup>d/</sup>												
\$ millions	1316	1167	144	82	406	1460	1655	195	13.4	269	377	108
% of Total	29.6	26.2	8.9	5.0	40.6	24.0	23.3	19.5		14.2	16.2	24.8
Above \$375 p.c. <sup>e/</sup>												
\$ millions	2828	3192	-	-	-	2828	3192	364	12.9	311	351	40
% of Total	63.5	71.7	-	-	-	46.8	45.2	36.4		16.5	15.1	9.2
TOTAL												
\$ millions	4450	4450	1625	1625	1000	6075	7075	1000	16.5	1888	2323	435
% of Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0
<u>Memoranda Items</u>												
MSAs												
\$ millions	480	188	1323	1365	724	1803	2277	474	26.3	1191	1510	319
% of Total	10.8	4.2	81.4	84.0	72.4	29.7	32.2	47.4		63.1	65.0	73.2
MSAs and Poorest <sup>f/</sup>												
\$ million	485	188	1474	1518	739	1959	2445	486	24.8	1321	1647	326
% of Total	10.9	4.2	90.1	93.4	73.9	32.2	34.6	48.6		70.0	70.9	74.8

a/ Because of over programming of World Bank funds, the reallocated funds have been pro-rated downwards (in the summary tables but not in the detailed country data) to match the Board approved program; similarly, IDA funds have been pro-rated upwards to adjust for the currently unallocated reserve.

b/ Calculated on the basis of the 10% discount factor commonly used. In view of current rates of world inflation, however, a 15% discount factor may be more appropriate.

c/ Excludes Indonesia and Nigeria.

d/ Excludes Ecuador and Iraq.

e/ Includes all OPEC countries.

f/ Excludes Indonesia.

PP&PR  
3/17/75



Table 2

## ILLUSTRATIVE THIRD WINDOW ALLOCATIONS BY COUNTRY

<u>Country</u>	<u>1972 Per Capita Income</u>	<u>Amount (\$ million)</u>	<u>Percent of Total</u>
<u>A. Below \$200</u>			
<u>LLDCs</u>			
Malawi	100	10	1.0
Sudan	120	20	2.0
Tanzania	120	30	3.0
Sub-Total		<u>60</u>	<u>6.0</u>
<u>MSAs</u>			
India	110	300	30.0
Pakistan	130	100	10.0
Malagasy Republic	140	30	3.0
Kenya	170	40	4.0
E.A.C.	150	40	4.0
Sierra Leone	190	14	1.4
Sub-Total		<u>524</u>	<u>52.4</u>
<u>Others</u>			
The Gambia	140	5	0.5
Togo	160	5	0.5
Sub-Total		<u>10</u>	<u>1.0</u>
Total below \$200		<u>594</u>	<u>59.4</u>
<u>B. \$201 - \$375</u>			
<u>MSAs</u>			
Cameroon	200	35	3.5
Senegal	260	30	3.0
Ghana	300	30	3.0
Honduras	320	25	2.5
El Salvador	340	5	0.5
Ivory Coast	340	25	2.5
Sub-Total		<u>150</u>	<u>15.0</u>
<u>Others</u>			
Bolivia	200	10	1.0
Philippines	220	40	4.0
Thailand	220	40	4.0
Egypt, A.R.	240	100	10.0
Liberia	250	5	0.5
Congo, P.D.R.	300	5	0.5
Mauritius	300	6	0.6
Korea	310	40	4.0
Paraguay	320	10	1.0
Sub-Total		<u>256</u>	<u>25.6</u>
Total \$201 - \$375		<u>406</u>	<u>40.6</u>
GRAND TOTAL		<u>1,000</u>	<u>100.0</u>

Table 3

Page 1 of 3

ILLUSTRATIVE ALLOCATIONS OF TOTAL BANK GROUP ASSISTANCE IN FY1976 BY COUNTRY WITH AND WITHOUT THIRD WINDOW  
(\$ Millions)

COUNTRIES	1972	IBRD		IDA		Third Window	Total Without Third Window	Total With Third Window
	Per Capita Income	Without Third Window	With Third Window	Without Third Window	With Third Window			
A. Below \$200								
LLDCs								
*Rwanda	60	-	-	16	18	-	16	18
Burundi	70	-	-	3	3	-	3	3
*Upper Volta	70	-	-	10	12	-	10	12
*Mali	80	-	-	18	23	-	18	23
Afghanistan	80	-	-	24	24	-	24	24
*Chad	80	-	-	23	23	-	23	23
*Ethiopia	80	-	-	86	86	-	86	86
Nepal	80	-	-	18	20	-	18	20
*Somalia	80	-	-	-	-	-	-	-
*Guinea	90	-	-	8	8	-	8	8
*Lesotho	90	-	-	3	3	-	3	3
*Niger	90	-	-	14	14	-	14	14
*Yemen, A. R.	50	-	-	16	18	-	16	18
Malawi	100	6	-	12	12	-	18	22
*Dahomey	110	-	-	14	14	-	14	14
*Sudan	120	-	-	32	32	20	32	52
*Tanzania	120	30	-	39	43	30	69	73
*Haiti	130	-	-	10	12	-	10	12
*Liberia	130	-	-	10	10	-	10	10
Uganda	150	-	-	-	-	-	-	-
Western Samoa	150	-	-	-	-	-	-	-
Sub-Total		36	-	356	375	60	392	435
MSAs								
Yemen, P. O. R.	100	-	-	6	6	-	6	6
Sri Lanka	110	-	-	35	50	-	35	50
Khmer Republic <sup>a</sup>	120	-	-	-	-	-	-	-
Pakistan	130	50	-	75	75	100	125	175
Malagasy Republic	140	54	24	16	16	30	70	70
E.A.C.	150	65	40	-	-	40	65	80
E.A.R.	160	-	-	8	8	-	8	8
Kenya	170	65	30	12	12	40	77	82
Mauritania	180	-	-	4	4	-	4	4
Sierra Leone	190	19	10	5	5	14	24	29
Sub-Total		253	104	161	176	224	414	504
Bangladesh	70	-	-	150	175	-	150	175
India	110	60	-	600	600	300	660	960
Sub-Total		60	-	750	775	300	810	1,075
Others								
Burma	90	-	-	40	40	-	40	40
Indonesia	90	400	400	-	-	-	400	400
Zaire	100	-	-	40	40	-	40	40
Nigeria	130	100	100	-	-	-	100	100
The Gambia	140	-	-	7	7	5	7	12
Togo	160	-	-	7	7	5	7	12
Vietnam, Rep. of <sup>a/</sup>	170	-	-	50	50	-	50	50
Sub-Total		500	500	144	144	10	644	654
TOTAL BELOW \$200		849	604	1411	1,470	594	2,260	2,668

\* Also MSAs

<sup>a/</sup> Notional; not an active program



Table 3

ILLUSTRATIVE ALLOCATIONS OF TOTAL BANK GROUP ASSISTANCE IN FY1976 BY COUNTRY WITH AND WITHOUT THIRD WINDOW  
(\$ Millions)

COUNTRIES	1972 Per Capita Income	IBRD		IDA		Third Window	Total Without Third Window	Total With Third Window
		Without Third Window	With Third Window	Without Third Window	With Third Window			
B. \$201 - \$375								
ILDCs								
Botswana	240	11	11	-	-	-	11	11
Sub-Total		11	11	-	-	-	11	11
MSAs								
Cameroon	200	16	-	25	20	35	41	55
Senegal	260	17	-	10	5	30	27	25
Ghana	300	45	15	8	8	30	53	53
Honduras	320	75	60	7	-	25	82	85
El Salvador	340	14	10	-	-	5	14	15
Y Coast	340	30	15	-	-	25	30	40
Sub-Total		197	100	50	33	150	247	293
Others								
Bolivia	200	21	21	5	-	10	25	31
Philippines	220	315	315	-	-	40	315	355
Thailand	220	150	150	-	-	40	150	190
Egypt, A. R.	240	150	80	65	40	100	215	220
Equatorial Guinea	240	-	-	-	-	-	-	-
Liberia	250	29	29	-	-	5	29	34
Swaziland	260	-	-	-	-	-	-	-
Jordan	270	20	20	5	5	-	25	25
Morocco	270	90	90	-	-	-	90	90
Papua and New Guinea	290	11	11	5	-	-	16	11
Congo P. D. R.	300	25	25	-	-	5	25	30
Mauritius	300	13	13	3	-	6	16	19
Korea	310	200	200	-	-	40	200	240
Paraguay	320	7	5	4	-	10	11	15
Syria A. R.	320	40	40	-	-	-	40	40
Ecuador	360	30	30	-	-	-	30	30
Iraq	370	-	-	-	-	-	-	-
Turkey	370	220	220	-	-	-	220	220
Sub-Total		1,321	1,249	87	45	256	1,408	1,559
* TOTAL \$201 - \$375								
		1,529	1,360	137	78	406	1,666	1,844

Table 3

## ILLUSTRATIVE ALLOCATIONS OF TOTAL BANK GROUP ASSISTANCE IN FY1976 BY COUNTRY WITH AND WITHOUT THIRD WINDOW

(\$ Millions)

COUNTRIES	1972 Per Capita Income	IBRD Without Third Window	With Third Window	IDA Without Third Window	With Third Window	Third Window	Total Without Third Window	Total With Third Window
<b>C. \$376 - \$500</b>								
MSAs								
Guyana	400	9	11	-	-	-	9	11
Others								
Tunisia	380	60	73	-	-	-	60	73
Zambia	380	55	67	-	-	-	55	67
Colombia	400	180	219	-	-	-	180	219
Guatemala	420	6	7	-	-	-	6	7
Algeria	430	193	193	-	-	-	193	193
Malaysia	430	145	177	-	-	-	145	177
Nicaragua	470	4	5	-	-	-	4	5
Dominican Republic	480	15	18	-	-	-	15	18
China, Republic of	490	-	-	-	-	-	-	-
Iran	490	150	150	-	-	-	150	150
Fiji	500	5	6	-	-	-	5	6
Sub-Total		813	915	-	-	-	813	915
TOTAL \$376 - \$500		822	926	-	-	-	822	926
<b>D. \$500 - \$800<sup>a/</sup></b>								
Peru	520	120	146	-	-	-	120	146
Brazil	530	500	610	-	-	-	500	610
Caribbean Region	550	20	24	-	-	-	20	24
Costa Rica	630	30	37	-	-	-	30	37
Bahrain	670	10	10	-	-	-	10	10
Lebanon	700	15	18	-	-	-	15	18
Mexico	750	410	500	-	-	-	410	500
Uruguay	760	35	43	-	-	-	35	43
Chile	800	70	85	-	-	-	70	85
Jamaica	810	15	18	-	-	-	15	18
Yugoslavia	810	200	244	-	-	-	200	244
TOTAL		1,425	1,735	-	-	-	1,425	1,735
TOTAL OF POOREST AND ADJUSTED COUNTRIES		4,625	4,625	1,548	1,548	1,000	6,173	7,173
<b>E. TOTAL OF ALL OTHER COUNTRIES</b>								
		445	445				445	445
GRAND TOTAL		5,070	5,070	1,548	1,548	1,000	6,618	7,618
MEMO ITEMS:								
TOTAL MSAs		549	215	1,260	1,300	724	1,809	2,239
TOTAL MSAs AND POOREST <sup>b/</sup>		555	215	1,404	1,446	739	1,959	2,400

<sup>a/</sup> Includes Jamaica and Yugoslavia which are marginally above \$800.<sup>b/</sup> Excludes Indonesia.



Table 4

COMPARISON OF BANK GROUP ALLOCATIONS FOR FY1976 BY REGION WITH AND WITHOUT THIRD WINDOW<sup>a/</sup>

	Population (millions)	Bank Group Program Lending				Third Window	Total		Net Increase in Total Assistance <sup>b/</sup>		Grant Equivalent Per Capita (\$)	
		IBRD		IDA			W/O TW	W/TW	\$	%	W/O TW	W/TW
		W/O TW	W/TW	W/O TW	W/TW							
Eastern Africa (\$ million) (% of Total)	127.6	262 5.9	162 3.6	275 16.9	278 17.1	176 17.6	537 8.8	616 8.7	79 7.9	14.7	2.09	2.62
Western Africa (\$ million) (% of Total)	132.5	247 5.6	170 3.8	169 10.4	166 10.2	154 15.4	416 6.9	490 6.9	74 7.4	17.7	1.05	1.73
East Asia & Pacific (\$ million) (% of Total)	275.6	1076 24.2	1105 24.8	68 4.2	63 3.9	120 12.0	1144 18.8	1288 18.2	144 14.4	12.5	0.63	0.83
South Asia (\$ million) (% of Total)	756.3	96 2.2	-	964 59.3	1008 62.0	400 40.0	1060 17.5	1408 19.9	348 34.8	32.8	1.11	1.38
EMENA (\$ million) (% of Total)	280.3	1259 28.3	1250 28.1	122 7.5	98 6.0	100 10.0	1331 22.7	1448 20.5	67 6.7	4.8	0.87	0.95
Latin America & Caribbean (\$ million) (% of Total)	282.3	1510 34.0	1763 39.6	27 1.7	12 0.7	50 5.0	1537 22.3	1825 25.8	288 28.8	18.7	0.67	0.81
TOTAL	1854.6	4450	4450	1625	1625	1000	6075	7075	1000	16.5	1.02	1.29

a/ Because of over-programming of World Bank funds, the reallocated funds have been pro-rated downwards (in the summary tables but not in the detailed country data) to match the Board approved program; similarly, IDA funds have been pro-rated upwards to adjust for the currently unallocated reserve.

b/ Percentages refer to rate of increase in total assistance (net) and not to share of country groups in that net increase.

Table 4a

EASTERN AFRICA: Country Detail of Illustrative Bank Group Assistance  
for FY76 Without and With Third Window of \$1000 Million  
(\$ million)

<u>Countries</u>	<u>Mid-1972 Per Capita Income (\$).</u>	<u>I B R D</u>		<u>I D A</u>		<u>Third Window</u>	<u>TOTAL</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
Botswana	240	11	11	-	-	-	11	11
Burundi	70	-	-	3	3	-	3	3
EAC	150	65	40	-	-	40	65	80
Ethiopia	80	-	-	86	86	-	86	86
Kenya	170	65	30	12	12	40	77	82
Lesotho	90	-	-	3	3	-	3	3
Madagascar	140	54	24	16	16	30	70	70
Malawi	100	6	-	12	12	10	18	22
Mauritius	300	13	13	3	-	6	16	19
Rwanda	60	-	-	16	18	-	16	18
Somalia	80	-	-	-	-	-	-	-
Sudan	120	-	-	32	32	20	32	52
Swaziland	260	-	-	-	-	-	-	-
Tanzania	120	30	-	39	43	30	69	73
Uganda	150	-	-	-	-	-	-	-
Zaire	100	-	-	40	40	-	40	40
Zambia	380	55	67	-	-	-	55	67
TOTAL of above		299	185	262	265	176	561	626
Prorated totals <sup>1/</sup>		(262)	(162)	(275)	(278)	(176)	(537)	(616)

NOTE: Country detail grouped by Region is taken from Table 3 where country detail is grouped by level of income.

<sup>1/</sup> Prorated to conform to total of Board approved lending program.



Table 4b

WESTERN AFRICA: Country Detail of Illustrative Bank Group Assistance for FY1976 Without and With Third Window of \$1000 Million

(\$ million)

Countries	Per Capita Income Mid-1972	I B R D		I D A		Third Window	T O T A L	
		WO/TW	W/TW	WO/TW	W/TW		WO/TW	W/TW
Cameroon	200	16	-	25	20	35	41	55
C.A.R.	160	-	-	8	8	-	8	8
Chad	80	-	-	23	23	-	23	23
Congo	300	25	25	-	-	5	25	30
Dahomey	110	-	-	14	14	-	14	14
Equatorial Guinea	240	-	-	-	-	-	-	-
Gabon	880	-	-	-	-	-	-	-
Gambia	140	-	-	7	7	5	7	12
Ghana	300	45	15	8	8	30	53	53
Guinea	90	-	-	8	8	-	8	8
Ivory Coast	340	30	15	-	-	25	30	40
Liberia	250	29	29	-	-	5	29	34
Mali	80	-	-	18	23	-	18	23
Mauritania	180	-	-	4	4	-	4	4
Niger	90	-	-	14	14	-	14	14
Nigeria	130	100	100	-	-	-	100	100
Senegal	260	17	-	10	5	30	27	35
Sierra Leone	190	19	10	5	5	14	24	29
Togo	160	-	-	7	7	5	7	12
Upper Volta	70	-	-	10	12	-	10	12
TOTAL		281	194	161	158	154	442	506
Prorated Totals <sup>1/</sup>		(247)	(170)	(169)	(166)	(154)	(416)	(490)

<sup>1/</sup> Prorated to conform to total of Bank approved lending program.

Table 4c

EAST ASIA AND PACIFIC: Country Detail of Illustrative Bank Group Assistance for FY1976 Without and With Third Window of \$1000 Million.  
(\$ million)

Countries	Mid-1972 Per Capita Income (\$)	I B R D		I D A		Third Window	T O T A L	
		WO/TW	W/TW	WO/TW	W/TW		WO/TW	W/TW
China, Rep. of	490	-	-	-	-	-	-	-
Fiji	500	5	6	-	-	-	5	6
Indonesia	90	400	400	-	-	-	400	400
Khmer Rep.	120	-	-	-	-	-	-	-
Korea	310	200	200	-	-	40	200	240
Laos	130	-	-	10	10	-	10	10
Malaysia	430	145	177	-	-	-	145	177
Papua New Guinea	290	11	11	5	-	-	16	11
Philippines	220	315	315	-	-	40	315	355
Singapore	1300	-	-	-	-	-	-	-
Thailand	220	150	150	-	-	40	150	190
Vietnam, Rep. of	170	-	-	50	50	-	50	50
Western Samoa	150	-	-	-	-	-	-	-
TOTAL of above		1226	1259	65	60	120	1291	1439
Prorated totals <sup>1/</sup>		(1076)	(1105)	(68)	(63)	(120)	(1144)	(1288)

<sup>1/</sup> Prorated to conform to total of Bank approved lending program.

PPRD  
3/18/75



Table 4d

SOUTH ASIA: Country Details of Illustrative Bank Group Assistance for FY76  
With and Without Third Window of \$1,000 million

<u>Countries</u>	Mid-1972 per capita Income (\$)	<u>IBRD</u>		<u>IDA</u>		<u>Third Window</u>	<u>Total</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
Bangladesh	70	-	-	150	175	-	150	175
Burma	90	-	-	40	40	-	40	40
India	110	60	-	600	600	300	660	900
Nepal	80	-	-	18	20	-	18	20
Pakistan	130	50	-	75	75	100	125	175
Sri Lanka	110	-	-	35	50	-	35	50
TOTAL of above		110	-	918	960	400	1028	1360
prorated totals <sup>1/</sup>		(96)	-	(964)	(1008)		(1060)	(1408)

<sup>1/</sup> Prorated to conform to total of Board approved lending program.

PPRD  
3/18/75

Table 4e

EMENA: Country Detail of Illustrative Bank Group Assistance  
FY1975 Without and With Third Window of \$1000 Million.

Countries	Per-Capita Income	I B R D		I D A		Third Window	T O T A L	
	Mid-1972	WO/TW	W/TW	WO/TW	W/TW		WO/TW	W/TW
Afghanistan	80	-	-	24	24	-	24	24
Algeria	430	193	193	-	-	-	193	193
Bahrain	670	10	10	-	-	-	10	10
Cyprus	1180	15	15	-	-	-	15	15
Egypt, A.R.	240	150	80	65	40	100	215	220
Finland	2810	-	-	-	-	-	-	-
Greece	1460	70	70	-	-	-	70	70
Iceland	2800	-	-	-	-	-	-	-
Iran	490	150	150	-	-	-	150	150
Iraq	370	-	-	-	-	-	-	-
Ireland	1580	20	20	-	-	-	20	20
Israel	2610	-	-	-	-	-	-	-
Jordan	270	20	20	5	5	-	25	25
Lebanon	700	15	18	-	-	-	15	18
Morocco	270	90	90	-	-	-	90	90
Oman	530	6	6	-	-	-	6	6
Romania	810	160	160	-	-	-	160	160
Spain	1210	15	15	-	-	-	15	15
Syria, A.R.	320	40	40	-	-	-	40	40
Tunisia	380	60	73	-	-	-	60	73
Turkey	370	220	220	-	-	-	220	220
Yemen, A.R.	90	-	-	16	18	-	16	18
Yemen, P.D.R.	100	-	-	6	6	-	6	6
Yugoslavia	810	200	244	-	-	-	200	244
Portugal	780	-	-	-	-	-	-	60
Total of Above		1434	1424	116	93	100	1550	1617
Prorated Totals <sup>1/</sup>		(1259)	(1250)	(122)	(98)	(100)	(1381)	(1448)

<sup>1/</sup> Prorated to conform to total of Board approved lending program.



Table 4f

LAC: Country Detail of Illustrative Bank Group Assistance for  
FY1976 Without and With Third Window of \$1000 Million  
(\$ million)

Countries	Mid-1972 Per Capita Income	I B R D		I D A		Third Window	T O T A L	
		WO/TW	W/TW	WO/TW	W/TW		WO/TW	W/TW
Argentina	1290	100	100	-	-	-	100	100
Bahamas	2240	9	9	-	-	-	9	9
Barbados	800	-	-	-	-	-	-	-
Bolivia	200	21	21	5	-	10	26	31
Brazil	530	500	610	-	-	-	500	610
CABEI	-	-	-	-	-	-	-	-
Caribbean Region	550	20	24	-	-	-	20	24
Chile	800	70	85	-	-	-	70	85
Colombia	400	180	219	-	-	-	180	219
Costa Rica	630	30	37	-	-	-	30	37
Dominican Republic	480	15	18	-	-	-	15	18
Ecuador	360	30	30	-	-	-	30	30
El Salvador	340	14	10	-	-	5	14	15
Guatemala	420	6	7	-	-	-	6	7
Guyana	400	9	11	-	-	-	9	11
Haiti	130	-	-	10	12	-	10	12
Honduras	320	75	60	7	-	25	82	85
Jamaica	810	15	18	-	-	-	15	18
Mexico	750	410	500	-	-	-	410	500
Nicaragua	470	4	5	-	-	-	4	5
Panama	880	25	25	-	-	-	25	25
Paraguay	320	7	5	4	-	10	11	15
Peru	520	120	146	-	-	-	120	146
Trinidad & Tobago	970	10	10	-	-	-	10	10
Uruguay	760	35	43	-	-	-	35	43
Venezuela	1240	15	15	-	-	-	15	15
TOTAL of above		1720	2008	26	12	50	1746	2070
Prorated totals <sup>1/</sup>		(1510)	(1763)	(27)	(12)	(50)	(1537)	(1825)

<sup>1/</sup> Prorated to conform to total of Board approved lending program.

## OFFICE MEMORANDUM

F1237

TO: Mr. J.B. Knapp

DECLASSIFIED

DATE:

March 14, 1975

FROM: John H. Adler *HS pp.*

JUN 05 2025

CONFIDENTIALSUBJECT: Third Window Allocations

WBG ARCHIVES

1. While P&B and DPS are discussing further a revised proposal for allocation of Third Window funds (and related movements of IDA and IBRD allocations), I thought that you and the other participants to yesterday's meeting would be interested to see the attached tables which show the "real" effect of the P&B proposals, compared to the original DPS proposals. Although the effect of the P&B proposed "rules" would need to be reviewed on a country-by-country basis, rather than followed slavishly, their general adoption would mean (relative to the initial proposals):

- a substantial reduction in IBRD's additional "risk" exposure;
- an increase in the grant element allocation to the poorest group;
- a reduction in the dollar amount of new commitments to the poorest group (this being the "cost" of the two "benefits" listed above).

2. I would also take this opportunity to summarize the proposed P&B allocation mechanism:

- transfer of all IDA allocations from countries with per capita incomes above \$200 to the poorest group. Countries "losing" IDA would receive "compensation" in the form of Third Window allocations (the compensation being greater for MSAs than for others);
- replacement of IBRD lending to countries in the poorest group (other than Indonesia and Nigeria) by Third Window (plus additional amounts of Third Window for India, Gambia, Togo and the Sudan, but not for Sri Lanka);
- for any country with per capita from \$201-375, which is considered as a marginal case for IBRD exposure, replace all or part of the original IBRD allocation by Third Window funds. "All" would apply to MSAs in this group; "part" would apply to the others.

The above "rules" would effectively allocate all available Third Window funds. The IBRD allocations "released" as a consequence would be reallocated to the more creditworthy countries in the \$201-375 and \$376-500 per capita groups.

Attachment

cc: Messrs. Chenery, Baum, Chauffournier, Krieger, Weiner, H. Adler, Bart Votaw, Stern, Haq, Chernick, Goodman, Gue, Schulmann, Wood/Taylor, Zeidan.

S.Eccles:ua



THIRD WINDOW ALLOCATIONSComparative Tables Contrasting the DPS and P&B Initial ProposalsA. Net changes in FY76 commitments of Third Window, IDA and IBRD funds (US\$ millions):

Per capita group	DPS Proposal				P&B Proposal			
	Third Window	Change in IBRD	Change in IDA	Net Change	Third Window	Change in IBRD	Change in IDA	Net Change
0-200	+552	-280	+89	+361	+530	-480	+181	+231
201-375	+448	-160	-45	+243	+470	+25	-137	+358
376-500	-	+440	-	+440	-	+455	-	+455
	+1,000	-	+44	+1,044	+1,000	-	+44	+1,044

B. Net changes in grant element of FY76 commitments of Third Window, IDA and IBRD funds (US \$ millions): 1/

Per capital group	0-200	201-375	376-500	Total
DPS proposal	+322	+167	+49	+538
P&B proposal	+366	+122	+50	+538

1/ Grant element of \$1,000 million of Third Window is about \$500 million (50%), and of the \$44 million of additional IDA it is about \$38 million (86%). For considering net changes in IBRD lending, a grant element of 11% was used. (All calculations at 10% discount rate.)

C. Additional IBRD "risk" involved (expressed as the apparent need for additional equity backing):

DPS proposal: about \$250 million

P&B proposal: about \$150 million

*Third Window*

Mr. Mahbub ul Haq, Director, Pol. Pl. & Pr. Review

March 14, 1975

Hans A. Adler, <sup>HAR</sup>Director, Eastern Africa Projects

Third Window

1. We have reviewed your memorandum of March 10, 1975, concerning the implications of the Third Window for the FY76 lending program of this Region.
2. The results of our review are shown on the attached table. For the Eastern Africa Region as a whole, we are proposing only minor increases over those suggested by you. There are however several important differences for specific countries.
3. The most important differences relate to Kenya and Tanzania. For Kenya we are recommending an acceleration of commitments within the 5-year lending program into FY76; whether the total 5-year lending program should be increased will have to be determined in the light of a new assessment of improved credit worthiness at the forthcoming CPP review. As for Tanzania, cost increases in the existing FY76 program will require lending now estimated at \$94 million. In addition, we plan to accelerate an urgent maize project (\$20 million) from FY77 to FY76. We also believe that this program is well within Tanzania's credit worthiness and Bank exposure limitations.
4. Other proposed changes include (a) a reduction in the lending program for Madagascar; we suggest no Bank lending for Madagascar in FY76 but somewhat larger Third Window lending than in your program. (b) A correction for Somalia which seems to have dropped out in your program; our proposal reflects shifts in projects between years and the addition of a drought project. (c) A reduction in the Mauritius program for both project and country reasons. (d) A reduction in the Ethiopia program to reflect changes in the phasing of projects. (e) Slight increases in IDA lending to Burundi and Zaire.

Attachment.

HAAdler:cba

cc: Messrs. J. Adler, Husain, Please, Wiehen,  
Hablutzel, Hendry, Mackay



## EASTERN AFRICA REGION

## THE FY76 PROGRAM AND THIRD WINDOW PROPOSALS

	CPS PROPOSAL				REGIONAL PROPOSAL				DIFFERENCE				COMMENTS	
	IBRD	IDA	TW	TOTAL	IBRD	IDA	TW	TOTAL	IBRD	IDA	TW	TOTAL		
COUNTRY PROGRAMS I														
EAC	65.0	-	18.0	83.0	65.0	-	18.0	83.0	-	-	-	-		
Ethiopia	-	86.0	-	86.0	-	73.5	-	73.5	-	-12.5	-	-12.5	Difference reflects annual phasing.	
Kenya	30.0	15.0	40.0	85.0	55.0	15.0	40.0	110.0	+25.0	-	-	+25.0	Accelerate program.	
Somalia	-	-	-	-	-	15.0	-	15.0	-	+15.0	-	+15.0	a) Shift in proj. between years; b) addition for drought.	
Uganda	-	32.0	20.0	52.0	-	32.0	20.0	52.0	-	-	-	-		
Tanzania	-	45.0	40.0	85.0	30.0	45.2	40.0	115.2	+30.0	+0.2	-	+30.2	Increase program.	
Uganda	-	-	-	-	-	-	-	-	-	-	-	-		
Sub-total	95.0	178.0	118.0	391.0	150.0	180.7	118.0	448.7	+55.0	+2.7	-	+57.7		
COUNTRY PROGRAMS II														
Botswana	11.0	-	-	11.0	16.0	-	-	16.0	+5.0	-	-	+5.0	Difference reflects annual phasing.	
Burundi	-	3.0	-	3.0	-	6.0	-	6.0	-	+3.0	-	+3.0		
Lesotho	-	5.0	-	5.0	-	4.5	-	4.5	-	-0.5	-	-0.5		
Madagascar	34.0	20.0	20.0	74.0	-	20.0	30.0	50.0	-34.0	-	+10.0	-24.0	Eliminate Bank lending; substitute 10 TW; more projects not available.	
Malawi	-	12.0	10.0	22.0	-	12.0	10.0	22.0	-	-	-	-		
Mauritius	13.0	-	6.0	19.0	-	-	5.0	5.0	-13.0	-	-1.0	-14.0	Program has been reduced.	
Mozambique	-	26.0	-	26.0	-	26.0	-	26.0	-	-	-	-		
Swaziland	-	-	-	-	-	-	-	-	-	-	-	-		
Zaire	-	40.0	-	40.0	-	45.0	-	45.0	-	+5.0	-	+5.0	Increase program.	
Zambia	64.0	-	-	64.0	64.0	-	-	64.0	-	-	-	-		
Sub-total	122.0	106.0	36.0	264.0	80.0	113.5	45.0	238.5	-42.0	+7.5	+9.0	-25.5		
TOTAL	217.0	284.0	154.0	655.0	230.0	294.2	163.0	687.2	+13.0	+10.2	+9.0	+32.2		

OUTGOING WIRE

TO: MR SVEN BURMESTER  
C/O GULF HOTEL  
DOHA

DATE: MARCH 12, 1975

CLASS OF SERVICE: TELEX (x-2811)  
FULL RATE

COUNTRY: QATAR

TEXT:  
Cable No.:

ALPHA FOUR MEETING WITH PRONK THIS MORNING CONFIRMED STRONG DUTCH SUPPORT FOR THIRD WINDOW SCHEME STOP WE SUGGESTED DUTCH CONTRIBUTION TO SUBSIDY FUND OF AROUND \$20 MILLION STOP HE DID NOT DEMUR BUT SAID HE WAS UNABLE TO MAKE COMMITMENT STOP HE EXPECTS OBTAIN GOVERNMENT DECISION BY APRIL ONE STOP AS OF TONIGHT WE STILL AWAIT CLEARANCE OF JOINT BANK/FUND DRAFT TRUST FUND PAPER FROM WITTEVEEN WHO ONLY RETURNED FROM CARACAS THIS MORNING STOP UNLESS YOU INSTRUCT DIFFERENTLY BELIEVE WE MUST NOW DEFER BOARD CONSIDERATION OF THIS PAPER UNTIL APRIL 8 STOP REGARDS

KNAPP

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME J. Burke Knapp  
DEPT. Senior Vice President, Operations

SIGNATURE \_\_\_\_\_  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: JBKnapp:vm

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cc: Mr. McNamara's office

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(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: \_\_\_\_\_



REFERENCE: 7B75355:AM

senior vice president/ operations

NAME 1. BILKE KENNEDY

MAR 13 11 09 AM 1975

GC: MR. MCNEILS, 2 OFFICE

КЛУБЪ

DEBEN BOVED CONSIDERATION OF THIS BUREAU ABOUT YENIT 8 2100 RECEIVED  
FROM CIVICUS THIS MORNING 2100 AMTAGE FOR INSURANCE DIFFERENTIAL BETWEEN ME MUST MOM  
STEVANACE OF TOTAL BUREAU/BOARD BUREAU MUST BUREAU FROM MILLERMAN WHO ONLY BELONGED  
EXCEPTS ORIGIN GOVERNMENT DECISION BY YENIT ONE 2100 VS OF TONIGHT ME SLIT VVVV  
MILITON 2100 HE DID NOT DEBEN BOL GVID HE WAS BUREAU TO MAKE COMMUNIST 2100 HE  
MINDOM SCHEME 2100 HE SUGGESTED DUTCH COMMERCE TO SUBSIDY BUREAU OF VVVV \$20  
VVVV BUREAU MEETING WITH BUREAU THIS MORNING COMPLETED BUREAU DUTCH SUPPORT FOR UNITED

CODICIBUS                      OPIBVS

DOEV  
C/O GOLF HOTEL  
WE SAEN BREWSTER

REKACI ~~LOIT BURE~~ (2-5011)

DATE MARCH 15 1912

1) David 1 Gen b file w 3rd Window file

March 12, 1975

To Mr. Bart:

Following are some observations on the "note on the implications of Third Window for FY-76 allocation":

1. The review is limited to countries with 1972 per capita incomes below \$800. This excludes the possibility of increasing the program in Yugoslavia where a justification could be made.
2. Mr. Finzi and I spent one hour with Mr. Meo going over the possible program increases country by country; almost none of our suggestions seem to have been accepted. Our suggestions included:

IDA

- increases for YAR and PDRY and possibly Jordan; *Col over - peng*
- Maintaining present IDA allocation for Egypt and Afghanistan.

T.W.

- shifting IBRD lending in Egypt to T.W.;
- shifting part of IBRD lending in Turkey to T.W. (also possibly in the case of Morocco).

IBRD

- possible program increase in Yugoslavia;
- inclusion of Portugal with a lending program of \$ 80 million;
- increases in Syria and Lebanon.

3. Suggested changes for EMENA in the Haq paper are as follows:

COUNTRIES	IBRD		IDA		TW	TOTAL	
	wo/TW	w/TW	wo/TW	w/TW		wo/TW	w/TW
Below \$200							
Afghanistan	-	-	24	24	-	24	24
Yemen A.R.	-	-	16	18	-	16	18
MSA's							
Yemen PDR	-	-	6	6	-	6	6
\$201-\$375							
Egypt	150	80	65	40	100	215	220
Jordan	20	15	5	5	15	25	35
Syria	40	40	-	-	-	40	40
Iraq	-	-	-	-	-	-	-
Turkey	220	200	-	-	-	220	200



Mr. Bart

- 2 -

March 12, 1975

COUNTRIES	IBRD		IDA			TOTAL	
	wo/TW	w/TW	wo/TW	w/TW	TW	wo/TW	w/TW
	<u>\$376-\$500</u>						
Tunisia	60	60	-	-	-	60	60
Algeria	193	160	-	-	-	193	160
Iran	150	150	-	-	-	150	150
<u>\$500-\$800</u>							
Bahrain	4	10	-	-	-	4	10
Lebanon	15	20	-	-	-	15	20
Portugal	-	60	-	-	-	-	60
	80					80	

4. It is very interesting to observe that the paper suggests a reduction in the programs of two countries (Turkey and Algeria) when the total WBG lending is supposed to be increased by U.S. 1.044 billion. I would seriously question whether such reductions (incidentally for the whole WBG membership there are only these two cases) were within the terms of reference for such a paper.

5. Presentation of grant equivalents should be interpreted carefully. In the case of Egypt there is only \$5 million increase in the total program. The per capita grant equivalent seems to have improved from 2.08 to 2.68, hence an improvement of 28.8%. In fact what happens at the margin is that \$26 million IDA money is replaced by \$36 million TW money. In cases where there is a decline in IDA money, the picture is as follows:

COUNTRY	IDA		TOTAL	
	wo/TW	w/TW	wo/TW	w/TW
India	600	575	840	910
Pakistan	75	70	125	195
Cameroon	25	15	41	51
Bolivia	5	-	26	40
Egypt	65	40	215	220
Mauritius	3	-	16	19
Paraguay	4	-	11	15

A. Karaosmanoglu

cc: Messrs. Paijmans  
Wapenhans  
Siebeck

Mr. Rudolf Hablutzel, Chief Economist, EAR

March 12, 1975

Ping-cheung Loh, Acting Director, EA CPI

Third Window

1. I refer to our discussion on Mr. Haq's proposed Third Window allocation for CPI countries. In addition to the figures already supplied to you, I have the following comments:
2. Ethiopia. No basic disagreement. The differences between the regional proposals and Haq's memo reflect movements of projects between FY75 and FY76 and \$8.5 Bank (included in the approved lending program) but omitted from Haq's table.
3. Kenya. Some of the differences reflect movements of projects between FY75, 76 and 77. However, since the financing required by firm FY76 projects is in excess of the available Bank Group financing, it is proposed to increase Haq's Bank allocation by \$25 million to \$55 million, i.e., the Third Window is seen as additional rather than a substitute for Bank for which Kenya's creditworthiness has already been established. An additional \$3 million IDA is also proposed to cover the increased scope of the Integrated Rural Development Project. Co-financing arrangements will still be necessary.
4. Somalia. No basic disagreement. The differences between the regional proposals and Haq's memo reflect recent changes in the distribution of the IDA allocation between fiscal years and an additional \$8 million approved by Mr. McNamara for drought relief.
5. Sudan. No disagreements.
6. Tanzania. Some of the differences reflect movements of projects between FY76 and FY77 and additional resources becoming available from a NORAD participation in Livestock II. However, since the financing requirements of FY76 projects are already considerably in excess of available Bank Group funds, it is proposed to retain the \$30 million Bank which Haq proposes to delete, i.e., Third Window resources are seen as additional rather than a substitute for Bank funds for which Tanzania's creditworthiness has already been established. Co-financing arrangements will still be necessary.
7. Uganda. No disagreements.
8. EAC. No disagreements.

cc: Messrs. Adler, Tolley, Burrows, Please O/R

RDStam/eb



Third Window

Operational Vice Presidents

March 11, 1975

J. Burke Knapp

Third Window

At the Presidential Review of the Third Window lending paper on March 4, Mr. McNamara asked to have available upon his return on March 17, a detailed illustrative allocation of \$1 billion of Third Window loans. In response to this request Mr. Haq has prepared the attached memorandum which I have not yet had an opportunity to read. I recognize that time is short but I would appreciate your meeting with me and Mr. Haq at 3:00 p.m. this coming Thursday, March 13, to review this paper.

Attachment

cc: Messrs. Chenery, Stern, Haq, Goodman

JBKnapp:ism

Note on the Implications of Third Window for FY76 Allocations

1. The attached tables present the results of a first exercise to allocate Bank Group lending in FY76 on a country-by-country basis, after adding \$1 billion Third Window resources to the total IBRD and IDA program. The main results of this preliminary exercise are as follows:

- (a) 55% of the Third Window lending goes to the countries below \$200 and the balance to countries between \$200-\$375. The MSAs will get 6% of the Third Window allocations while the MSAs and the poorest countries below \$200 will get about 70%.
- (b) The availability of Third Window resources results in the allocation of the bulk of IDA (94%) to the poorest group below \$200, and reallocation of about \$375 million of IBRD from countries with marginal creditworthiness (e.g. India, Egypt, Ghana, Tanzania and Kenya) to other borrowers which are better risks (e.g. Brazil, Mexico, Colombia and Malaysia) which also improves the overall soundness of the Bank Group portfolio and therefore reduces the requirement for supplementary reserves to support the Third Window.
- (c) The increase in the volume of lending is highest to the poorest group (18.8%) and decreases progressively to the higher income group, LDCs (18.4% to \$200-\$375 group and 14.0% to over \$375 group.)
- (d) All major country groups, whether they do or do not receive direct Third Window allocations, benefit substantially from the introduction of Third Window lending. Thus, the Latin American group will also get an increase of 24 % in the total of Bank Group assistance, mainly through the reallocation of IBRD. The increase in EMENA region is fairly small, however, because there is no obvious justification for increasing either the volume of lending or for a further softening of terms to this group of countries. (See Table 4).

2. It should be clarified that the attached allocations often reflect short-term judgements about FY76 in line with the assumption that the Third Window is a one year scheme. They have been influenced a good deal, particularly in some small African countries, by the prospect whether any project is available at all in FY76. The results of the latest CPP review have also been taken into account to reflect more realism for FY76.



## OUTGOING WIRE

TO: HANS WYSS  
CHIEF RMWA  
ABIDJAN

DATE: MARCH 12, 1975

CLASS OF  
SERVICE: INTBAFRAD

(extension 5908)

COUNTRY: IVORY COAST

TEXT:  
Cable No.:

YELLOW COVER GUINEA DABOYA APPRAISAL REPORT IS OUT AND WE PROPOSE TO DISCUSS  
ITS SUBSTANCE WITH THE GUINEANS PRIOR TO FORMAL NEGOTIATIONS stop I PLAN  
TO GO TO CONAKRY ABOUT SECOND WEEK OF APRIL AND REQUEST MR DE TROYER MEET  
ME THERE AND PARTICIPATE IN DISCUSSIONS FOR ABOUT A WEEK PLEASE CABLE  
YOUR AGREEMENT IN PRINCIPLE AND INSTRUCTIONS AS TO PROVISION OF VISA stop  
REGARDS

GILLETTE  
INTBAFRAD

## NOT TO BE TRANSMITTED

AUTHORIZED BY: M.J. Gillette, Chief, Programs Division  
Western Africa Regional Office

NAME

DEPT.

SIGNATURE

(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:

MJGillette:mjk -- GUINEA Daboya

CLEARANCES AND COPY DISTRIBUTION:

cc.: Messrs. de la Renaudière  
Rowe

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Checked for Dispatch:

programming, though this again introduces a short-term bias in the allocation pattern that emerges. If the Third Window is to be more than a one-year facility, longer-term judgements will need to be made within the framework of our usual five-year planning period.

3. In judging to what extent these results are reasonable, one has of course to bear in mind the probably conflicting desires of the potential contributors to the subsidy fund. In line with the logic of the Board paper, we have given particular emphasis to the increase in the volume of lending rather than terms. With respect to the terms (as measured by the grant element of the Bank Group program), there is limited scope for further softening the terms of lending to the poorest countries without additional IDA; at the same time, those countries that receive additional IBRD do not, of course, get any softening of terms from the Bank (although additional IBRD might reduce their borrowing from harder term sources). The middle income group of countries get the main benefit on the terms of lending since they receive a large proportion of Third Window lending and were not previously receiving much IDA. (See grant element comparison in the summary table).

4. The following background tables are attached herewith:

Table 1 - Summary of FY76 Bank Group Lending Programs With and Without Third Window

Table 2 - Summary of Third Window Allocations by Country

Table 3 - Detailed Country-by-Country Bank Group Allocations (3A), and Increases in Grant Equivalents by Country (3B)

Table 4 - Bank Group Allocations - Comparison by Region With and Without Third Window

Table 5 - Operations and Lending Program for FY75-77 by Country and Present Margin of Slippage

Table 6 - Recent Norms of Project Cost Sharing in Each Country

5. These should be treated merely as illustrative tables which seek to reflect a country-by-country judgement about (a) need for concessional assistance, (b) assessment of creditworthiness for IBRD or Third Window lending or for a blend of both, (c) availability of projects to make quick commitments possible, (d) economic performance and prospects, and (e) likely availability of assistance from other sources. These tables are based at this stage on the considered judgements of the Program Review Division, though in some cases the concerned staff of the Regions has been consulted informally. In further refining the tables, it will be



desirable to focus even further on what is operationally possible in FY76 in the light of the possibilities of reducing the margin between the operations and lending program.

6. A number of important issues arise even in this preliminary exercise which require resolution and guidance at the management level:

- (a) Key Country Judgements. Allocation decisions on certain key countries have a large effect within the total. These key countries are India, Pakistan, Bangladesh, Sri Lanka, Korea, Kenya and Egypt. (Separate notes are being prepared on these key countries)
- (b) Increasing the Level of Benefits to the Poorest Countries. Some of the poorest countries (the Sahel, other least developed and Bangladesh), despite their obvious need for concessional funds, may not be able to absorb additional funds through project financing in FY76. There is the question of what can be done to channel more resources to them in the short run -- through additional program lending, higher project cost sharing, and tacit coverage of cost overruns. On a more general level, if concessional resources are to be reallocated to the poorest over the longer run, manpower resources may have to be reallocated now to increase their absorptive capacity over time. Another element in determining the level of benefits to the poorest countries are creditworthiness judgements on certain potential but somewhat doubtful Third Window recipients such as Sri Lanka, Sudan, Ethiopia, Tanzania and Zaire.
- (c) Underprogramming of IDA. There is underprogramming of IDA by \$77 million in FY76 at present. We understand that this is deliberate to allow for the possibility of covering cost overruns in Africa, lending to former Portuguese territories, and of discontinuing transfers of Bank profits to IDA. In our present exercise, \$44 million of this underprogramming has been reallocated. Depending on what overall margin of underprogramming is decided to be necessary, the IDA allocations may need some adjustment.
- (d) Overprogramming of IBRD. On the other hand, there is already overprogramming of \$744 million in IBRD allocations for FY76. This provides a substantial cushion for slippage in IBRD program or for replacement of some IBRD financing by Third Window at a later stage, depending on the resources available for Third Window and the rate at which they get committed.

7. The paper to the Board is for obvious reasons not explicit about the possible staff implications of Third Window lending for one year. Nevertheless, as pointed out before, there do seem to be staff implications in expanding lending to the poorest countries. They will persist whether or not the Third Window is a one-year scheme or for longer, since hopefully additional IDA will eventually be forthcoming.



Pattern of Bank Group Assistance in FY76 with \$1 Billion  
in Third Window Loans<sup>a/</sup>

Country Groups by Level of Income	IBRD		IDA		Third Window	TOTAL		Net Increase in Total Assistance		Grant Element	
	Without TW	With TW	Without TW	With TW		Without TW	With TW	\$	%	Without TW	With TW
Below \$200 p.c. <sup>b/</sup>											
\$ millions	451	212	1431	1532	552	1932	2296	364	18.8	66.0	70.4
% of Total	10.1	4.7	91.1	94.2	55.2	28.6	29.4				
\$200 - 375 p.c. <sup>c/</sup>											
\$ millions	1277	1141	114	93	448	1421	1682	261	18.4	18.6	26.3
% of Total	28.7	25.6	8.9	5.7	44.8	23.4	23.8				
Above \$375 p.c. <sup>d/</sup>											
\$ millions	2722	3097	-	-	-	2722	3097	375	14.0	11.0	11.0
% of Total	61.2	69.6	-	-	-	61.2	69.6				
TOTAL											
\$ millions	4450	4450	1625	1625	1000	6075	7075	1000	16.5	31.1	33.8
% of Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0				
Memo Items:											
MSAs											
\$ millions	621	341	1322	1365	688	1943	2394	451	23.2	62.0	65.0
% of Total	13.9	7.7	81.3	84.0	68.8	31.9	33.8				
MSAs and Poorest <sup>e/</sup>											
\$ millions	626	341	1473	1516	703	2099	2560	461	22.0	63.6	66.1
% of Total	14.1	7.7	90.6	93.3	70.3	34.5	36.2				

<sup>a/</sup> Amounts are pro-rated to conform to Board approved FY76 Lending Program

<sup>b/</sup> Excludes Indonesia and Nigeria.

<sup>c/</sup> Excludes Ecuador and Iraq.

<sup>d/</sup> Includes all OPEC countries.

<sup>e/</sup> Excludes Indonesia.

1976

Table 2A

Page

## ILLUSTRATIVE COUNTRY ALLOCATIONS FOR THIRD WINDOW

COUNTRIES	1972	1980		1985		Third Window	Total Without Third Window		Total With Third Window
	Per Capita Income	Without Third Window	With Third Window	Without Third Window	With Third Window		Without Third Window	With Third Window	
A. Below \$200									
MSAs									
Algeria	60	-	-	16	26	-	16	26	26
Burundi	70	-	-	3	3	-	3	3	3
Upper Volta	70	-	-	10	15	-	10	15	15
Malawi	80	-	-	18	33	-	18	33	33
Afghanistan	80	-	-	24	24	-	24	24	24
Chad	80	-	-	23	23	-	23	23	23
Ethiopia	80	-	-	86	86	-	86	86	86
Nepal	80	-	-	18	22	-	18	22	22
Somalia	80	-	-	-	-	-	-	-	-
Guinea	90	-	-	8	10	-	8	10	10
Lesotho	90	-	-	3	5	-	3	5	5
Niger	90	-	-	14	14	-	14	14	14
Yemen, A. R.	90	-	-	16	18	-	16	18	18
Malawi	100	6	-	12	12	10	18	22	22
Dahomey	110	-	-	14	15	-	14	15	15
Sudan	120	-	-	32	32	20	32	52	52
Tanzania	120	30	-	39	45	40	69	85	85
Senegal	130	-	-	10	15	-	10	15	15
Laos	130	-	-	10	10	-	10	10	10
Uganda	150	-	-	-	0	-	-	-	-
Western Samoa	150	-	-	-	-	-	-	-	-
Sub-Total		36	-	355	404	70	392	478	478
MSAs									
Yemen, P. D. R.	100	-	-	6	6	-	6	6	6
Sri Lanka	110	-	-	35	45	30	35	75	75
Khmer Republic	120	-	-	-	-	-	-	-	-
Pakistan	130	50	50	75	70	75	125	195	195
Madagascar Republic	140	34	34	16	20	20	70	74	74
E.A.G.	150	55	55	-	-	10	65	93	93
C.A.R.	160	-	-	8	8	-	8	8	8
Kenya	170	55	30	12	15	40	77	85	85
Malawi	180	-	-	4	4	-	4	4	4
Sierra Leone	190	19	10	5	5	14	24	29	29
Sub-Total		253	189	161	173	197	414	529	529
Bangladesh	70	-	-	150	200	-	150	200	200
India	110	240	60	600	575	275	840	910	910
Sub-Total		240	60	750	775	275	930	1,110	1,110
Others									
Burma	90	-	-	40	40	-	40	40	40
Indonesia	90	400	400	-	-	-	400	400	400
Zaire	100	-	-	40	40	-	40	40	40
Nigeria	130	100	100	-	-	-	100	100	100
The Gambia	140	-	-	7	7	5	7	12	12
Togo	160	-	-	7	7	5	7	12	12
Vietnam, Rep. of	170	-	-	50	50	-	50	50	50
Sub-Total		500	500	144	144	10	644	654	654
TOTAL BELOW \$200		1029	749	1411	1500	552	2440	2801	2801

\* Also MSAs

a/ National; not an active program

32  
12  
49



Table 3A

Page

## ILLUSTRATIVE COUNTRY ALLOCATIONS FOR THIRD WINDOW

COUNTRIES	1972	IBRD		IDA		Third Window	Total	Total
	Per Capita Income	Without Third	With Third	Without Third	With Third		Without Third	With Third
		Window	Window	Window	Window		Window	Window
B. \$201 - \$375								
<u>LBDS</u>								
Botswana	240	11	11	-	-	-	11	11
Sub-Total		11	11				11	11
<u>MSAs</u>								
Cameroon +24	200	16	10	25	15	26	41	51
Senegal	260	17	10	10	10	30	27	50
Ghana	300	45	15	8	10	35	53	60
Honduras	320	75	60	7	7	30	82	97
El Salvador	340	14	10	-	-	10	14	20
Ivory Coast	340	30	30	-	-	25	30	55
Sub-Total		197	135	50	42	156	247	333
<u>Others</u>								
Bolivia	200	21	20	5	-	20	26	40
Philippines	220	315	315	-	-	45	315	360
Thailand	220	150	150	-	-	45	150	195
Egypt, A. R.	240	150	80	65	40	100	215	220
Equatorial Guinea	240	-	-	-	-	-	-	-
Liberia	250	29	29	-	-	-	29	29
Swaziland	260	-	-	-	-	-	-	-
Jordan	270	20	15	5	5	15	25	35
Morocco	270	90	90	-	-	-	90	90
Papua and New Guinea	290	11	11	5	5	5	16	21
Congo P. D. R.	300	25	25	-	-	-	25	25
Mauritius	300	13	13	3	-	6	16	19
Korea	310	200	200	-	-	46	200	246
Paraguay	320	7	5	4	-	10	11	15
Syria A. R.	320	40	40	-	-	-	40	40
Ecuador	360	30	30	-	-	-	30	30
Iraq	370	-	-	-	-	-	-	-
Turkey	370	270	200	-	-	-	270	200
Sub-Total		1,321	1,223	87	50	292	1,408	1,455
TOTAL \$201 - \$375		1,529	1,369	137	92	448	1,666	1,909

Table 2A

Page

## ILLUSTRATIVE COUNTRY ALLOCATIONS FOR THIRD WINDOW

COUNTRIES	1972	1980		19A		Third Window	Total Without Third Window	Total With Third Window
	Per Capita Income	Without Third Window	With Third Window	Without Third Window	With Third Window			
C. \$375 - \$500								
MSAs								
Guyana	400	9	16	-	-	-	9	16
Others								
Tunisia	380	60	60	-	-	-	60	60
Zambia	380	55	64	-	-	-	55	64
Colombia	400	180	240	-	-	-	180	240
Guatemala	420	6	15	-	-	-	6	15
Algeria	430	193	160	-	-	-	193	160
Malaysia	430	145	171	-	-	-	145	171
Nicaragua	470	4	15	-	-	-	4	15
Dominican Republic	480	15	30	-	-	-	15	30
China, Republic of	490	-	-	-	-	-	-	-
Iran	490	150	150	-	-	-	150	150
Fiji	500	5	10	-	-	-	5	10
Sub-Total		<u>913</u>	<u>915</u>	-	-	-	<u>913</u>	<u>915</u>
TOTAL \$375 - \$500		<u>922</u>	<u>931</u>	-	-	-	<u>822</u>	<u>931</u>
D. \$500 - \$800								
Peru	520	120	175	-	-	-	120	175
Brazil	530	500	590	-	-	-	500	590
Caribbean Region	550	-	20	-	-	-	-	20
Bahrain	670	4	10	-	-	-	4	10
Lebanon	700	15	20	-	-	-	15	20
Mexico	750	410	490	-	-	-	410	490
Uruguay	760	35	50	-	-	-	35	50
Portugal	780	-	60	-	-	-	-	60
TOTAL \$500 - \$800		<u>1,094</u>	<u>1,415</u>	-	-	-	<u>1,094</u>	<u>1,415</u>
TOTAL OF POOREST AND ADJUSTED COUNTRIES		<u>4,464</u>	<u>4,464</u>	<u>1,548</u>	<u>1,592</u>	<u>1,000</u>	<u>6,012</u>	<u>7,056</u>
E. TOTAL OF ALL OTHER COUNTRIES		<u>760</u>	<u>760</u>				<u>760</u>	<u>760</u>
GRAND TOTAL		<u>5,224</u>	<u>5,224</u>	<u>1,548</u>	<u>1,592</u>	<u>1,000</u>	<u>6,772</u>	<u>7,816</u>
MEMO ITEMS:								
TOTAL MSAs		<u>729</u>	<u>400</u>	<u>1,260</u>	<u>1,337</u>	<u>688</u>	<u>1,989</u>	<u>2,425</u>
TOTAL MSAs AND POOREST <sup>b/</sup>		<u>735</u>	<u>400</u>	<u>1,404</u>	<u>1,485</u>	<u>703</u>	<u>2,139</u>	<u>2,588</u>

<sup>b/</sup> Excludes Indonesia and Nigeria



Table 38

Page 1

## ILLUSTRATIVE CHANGES IN PER CAPITA LENDING AND GRANT EQUIVALENTS FOR THIRD WINDOW

Countries	1972 Population	Per Capita Lending		% Increase	Per Capita Grant Equivalents		% Increase
		Without Third Window	With Third Window		Without Third Window	With Third Window	
A. Below \$200							
<u>LLDCs</u>							
Rwanda	3.9	4.10	6.66	62.4	3.52	5.72	62.4
Burundi	3.5	0.85	0.85	-	0.73	0.73	-
Upper Volta	5.6	1.78	2.67	50.0	1.53	2.30	50.0
Mali	5.3	3.19	6.22	83.3	2.92	5.35	83.3
Afghanistan	14.9	1.61	1.61	-	1.38	1.38	-
Chad	3.8	6.05	6.05	-	5.20	5.20	-
Ethiopia	25.9	3.32	3.32	-	2.85	2.85	-
Nepal	11.5	1.56	1.91	22.6	1.34	1.64	22.6
Somalia	3.0	-	-	-	-	-	-
Guinea	5.1	1.56	1.96	25.6	1.34	1.68	25.6
Lesotho	1.0	3.00	5.00	66.7	2.58	4.30	66.7
Niger	4.3	3.25	3.25	-	2.80	2.80	-
Yemen, A. R.	6.1	2.62	2.95	12.6	2.25	2.53	12.6
Malawi	4.7	3.83	4.68	22.2	2.34	3.26	39.3
Dahomey	2.9	4.53	5.17	7.1	4.15	4.45	7.1
Sudan	16.6	1.93	3.13	62.3	1.66	2.26	36.2
Tanzania	13.6	5.07	6.25	23.3	2.71	4.39	62.0
Haiti /a	4.4	2.27	3.41	50.0	1.95	2.93	50.0
Lebanon	3.1	3.23	3.23	-	2.77	2.77	-
Uganda	10.5	-	-	-	-	-	-
Western Samoa	0.2	-	-	-	-	-	-
Sub-Total	149.9	2.62	3.19	21.8	2.07	2.57	24.2
<u>MSAs</u>							
Yemen, P.O.R.	1.5	4.00	4.00	-	3.44	3.44	-
Sri Lanka	13.2	2.65	5.63	114.3	2.28	4.07	78.4
Khmer Republic /a	7.3	-	-	-	-	-	-
Pakistan	66.7	1.87	2.92	56.2	0.97	1.55	59.8
Malagasy Republic	7.4	9.48	10.00	5.7	2.66	4.18	51.1
EAC	36.2	1.80	2.29	27.2	0.20	0.45	125.0
C.A.R.	1.7	4.71	4.71	-	4.05	4.05	-
Kenya	12.1	6.36	7.02	10.4	1.44	2.99	107.6
Mauritania	1.2	3.33	3.33	-	2.87	2.87	-
Sierra Leone	3.7	8.83	10.74	20.3	2.37	4.59	93.2
Sub-Total	112.8	3.64	4.91	34.9	1.46	2.36	61.6
Bangladesh	72.5	2.07	2.76	33.3	1.78	2.37	33.3
India	553.5	1.49	1.61	8.1	0.56	1.13	19.8
Sub-Total	635.0	1.56	1.75	12.2	1.06	1.27	19.8
<u>Others</u>							
Burma	28.9	1.38	1.38	-	1.19	1.19	-
Indonesia	121.6	3.29	3.29	-	0.36	0.36	-
Zaire	19.1	2.36	2.36	-	2.03	2.03	-
Nigeria	69.5	1.44	1.44	-	0.16	0.16	-
Gambia, The	0.4	17.50	30.00	71.4	15.05	21.30	41.5
Togo	2.1	3.33	5.71	71.5	2.87	4.06	41.5
Vietnam Rep. of /a	19.3	2.59	2.59	-	2.23	2.23	-
Sub-Total	260.9	2.47	2.51	1.6	0.69	0.70	1.5
TOTAL BELOW \$200	1,150.6	2.10	2.41	14.8	1.14	1.42	24.6

/a Also MSAs  
/a National; not an active program

Table 38

Page 2

## ILLUSTRATIVE CHANGES IN PER CAPITA LENDING AND GRANT EQUIVALENTS FOR THIRD WINDOW

Countries	1972 Population	Per Capita Lending		Increase	Per Capita Grant Equivalents		% Increase
		Without Third Window	With Third Window		Without Third Window	With Third Window	
<u>B. \$201 - \$375</u>							
<u>LCDCs</u>							
Botswana	0.6	18.33	18.33	-	2.02	2.02	-
<u>MSAs</u>							
Cameroon	6.1	6.72	8.36	24.4	3.81	4.43	16.3
Senegal	4.0	6.75	12.50	85.2	2.62	6.18	135.9
Ghana	9.1	5.82	6.59	13.2	1.29	3.05	135.4
Honduras	2.7	30.37	35.93	18.3	5.29	10.23	93.4
El Salvador	3.7	3.78	5.41	43.1	0.42	1.65	292.9
Ivory Coast	5.4	5.56	10.18	83.1	0.61	2.93	380.3
Sub-Total	31.0	7.37	10.74	34.3	2.09	4.16	99.0
<u>Others</u>							
Bolivia	5.2	5.00	7.69	53.8	1.27	2.35	85.0
Philippines	39.0	8.08	9.23	14.2	0.89	1.47	65.2
Thailand	33.5	3.90	3.06	23.7	0.43	1.01	134.9
Egypt, A.R.	14.8	6.18	6.32	2.3	2.08	2.68	28.8
Equatorial Guinea	0.3	-	-	-	-	-	-
Liberia	1.6	18.13	18.13	-	-	-	-
Swaziland	0.4	-	-	-	1.99	1.99	-
Jordan	2.5	14.00	12.00	14.3	2.60	5.38	106.9
Morocco	15.8	5.70	5.70	-	0.62	0.62	-
Papua and New Guinea	2.6	5.75	9.68	31.4	2.12	3.08	45.3
Congo, P.D.R.	1.2	20.83	20.83	-	2.29	2.29	-
Mauritius	0.8	20.00	23.75	18.8	5.01	5.53	10.4
Korea	32.4	6.17	7.59	23.0	0.67	1.38	105.9
Paraguay	2.4	4.58	6.25	36.5	1.75	2.31	32.0
Syria, A.R.	6.7	5.97	5.97	-	0.65	0.65	-
Ecuador	6.5	4.61	4.61	-	0.50	0.50	-
Iraq	10.1	-	-	-	-	-	-
Turkey	37.0	5.94	5.40	-10.3	0.65	0.59	-8.2
Sub-Total	217.8	5.92	6.58	11.2	0.91	1.36	49.5
TOTAL \$201 - \$375	253.4	6.16	7.09	14.7	1.06	1.68	58.5



Table 2B

Page 3

## ILLUSTRATIVE CHANGES IN PER CAPITA LENDING AND GRANT EQUIVALENTS FOR THIRD WINDOW

Countries	1972 Population	Per Capita Lending		% Increase	Per Capita Grant Equivalents		% Increase
		Without Third Window	With Third Window		Without Third Window	With Third Window	
<u>C. \$375 - \$500</u>							
MSAs							
Guyana	0.3	11.25	20.00	77.8	1.23	2.20	78.8
Others							
Tunisia	5.3	11.32	11.32	-	1.24	1.24	-
Zambia	4.5	12.22	14.22	16.4	1.34	1.56	16.4
Colombia	23.0	7.52	10.43	38.4	0.56	1.14	32.5
Guatemala	5.6	1.07	2.67	149.5	0.11	0.29	163.6
Algeria	14.3	13.49	11.18	-17.1	1.49	1.23	-20.0
Malaysia	11.5	12.60	14.86	17.9	1.38	1.63	18.1
Nicaragua	2.2	1.81	6.81	275.2	0.20	0.75	275.0
Dominican Republic	4.2	3.57	7.14	100.0	0.39	0.78	100.0
China, Republic of	15.1	-	-	-	-	-	-
Iran	31.2	4.80	4.80	1	0.52	0.52	-
Fiji	0.5	10.00	20.00	100.0	1.10	2.20	100.0
Sub-Total	117.4	6.92	7.79	12.6	0.76	0.85	11.8
TOTAL \$375 - \$500	118.2	6.95	7.87	13.1	0.76	0.86	13.2
<u>D. \$500 - \$800</u>							
Others							
Peru	14.1	8.33	12.15	45.3	0.93	1.36	46.2
Brazil	98.2	5.09	6.01	18.0	0.55	.66	17.3
Caribbean Region	4.1	-	4.50	-	-	0.50	-
Bahrain	0.2	20.00	50.00	150.0	2.20	5.50	150.0
Lebanon	2.9	5.17	6.89	33.3	0.56	0.75	33.9
Mexico	54.3	7.96	9.04	13.6	0.83	.99	19.3
Uruguay	3.0	11.66	16.66	42.9	1.28	1.83	43.0
Portugal	9.6	-	6.97	-	-	0.77	-
TOTAL \$500 - \$800	185.6	5.84	7.62	30.4	0.64	0.84	31.25

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Table 4  
REGIONAL DISTRIBUTION OF BANK GROUP ASSISTANCE IN FY76  
WITH 1 BILLION IN THIRD WINDOW LOANS

	Population (millions)	Bank Group Program Lending				Third Window	Total		Net Increase in Total Assistance <sup>b/</sup>		Grant Equivalent Per Capita (\$)	
		IBRD <sup>a/</sup>		IDA			W/O TW	W/TW	\$	%	W/O TW	W/
Eastern Africa (\$ million) (% of Total)	127.6	255 <sup>a/</sup> 5.7	135 4.2	275 16.9	291 17.9	154 15.4	530 8.7	630 8.9	100 10.0	18.9	2.08	2.
Western Africa (\$ million) (% of Total)	132.5	239 5.4	195 4.4	169 10.4	176 10.3	140 14.0	408 6.7	511 7.3	103 10.3	25.2	1.29	1.
East Asia & Pacific (\$ million) (% of Total)	275.6	1,044 23.5	1,071 24.1	68 4.2	67 4.1	141 14.1	1,112 18.3	1,279 18.1	167 16.7	15.0	.63	
South Asia <sup>c/</sup> (\$ million) (% of Total)	756.3	247 5.6	94 2.1	964 59.3	971 59.9	390 38.0	1,211 19.4	1,448 20.5	237 <sup>e/</sup> 23.7	19.6 <sup>d/</sup>	1.13	1.
EMENA (\$ million) (% of Total)	280.3	1,216 27.3	1,168 26.2	112 7.5	94 5.8	115 11.5	1,338 22.0	1,377 19.6	39 3.9	2.9	.85	
Latin America & Caribbean (\$ million) (% of Total)	282.3	1,449 32.6	1,737 39.0	27 1.7	23 1.4	79 7.0	1,476 24.3	1,830 25.9	354 35.4	24.0	.65	
TOTAL	1854.6	4,450	4,450	1,625	1,625	1,000	6,075	7,075	1,000	16.56	1.02	1.

- <sup>a/</sup> Country allocations have been scaled down on a pro-rata basis to reach the Bank lending ceiling of \$4,450 for FY1976.
- <sup>b/</sup> Percentages refer to rate of increase in total assistance (net) and not to share of country groups in that net increase.
- <sup>c/</sup> Excludes \$20 million tentatively allocated for Ethiopia in P&S Table IV (3.1.75).
- <sup>d/</sup> The IDA reserve of \$77 million in the current program (after allocation of \$23 million to Chad) has been distributed on a pro-rata basis to each region.
- <sup>e/</sup> A "reserve" of \$37 million remaining after the proposed revisions in the country allocation has been allocated on a pro-rata basis to each region.
- <sup>f/</sup> The base data include \$240 million of IBRD for India, of which \$180 million was regarded as quite tentative. If the pro-rated equivalent of this (\$103 million) were excluded from the South Asia total, the absolute increase would be \$390 million and the percentage increase would be 27.1.



## Operations and Lending Program FY 75-77

	Operations Program			Lending Program			Total Margin of Slippage 75-77
	75	76	77	75	76	77	
A. Below \$200							
<u>LDCs</u>							
*Rwanda	2	1	2	1	2	1	2
Burundi	1	1	1	1	1	2	-1
*Upper Volta	1	2	3	1	1	3	1
*Mali	1	3	3	1	2	3	1
Afghanistan	2	3	4	3	3	2	1
*Chad	1	-	3	1	-	2	1
*Ethiopia	5	6	4	4	5	6	0
Nepal	1	3	6	2	3	3	2
*Somalia	2	1	-	2	-	1	1
*Guinea	1	1	1	1	1	1	0
*Lesotho	1	2	1	1	1	1	1
*Niger	-	3	1	1	2	1	0
*Yemen A.R.	3	3	3	2	2	3	2
Malawi	2	2	4	2	2	2	2
*Dahomey	2	1	2	1	2	1	1
*Sudan	3	3	6	2	3	4	3
*Tanzania	7	9	2	6	6	4	2
*Haiti	1	2	2	1	1	1	2
*Laos	-	-	-	1	1	2	
Uganda	-	-	-	-	-	-	
Western Samoa	1	-	-	1	-	-	0
Total	37	46	48	35	38	43	-
<u>ESAs</u>							
Yemen P.D.R.	2	2	2	3	1	1	1
Sri Lanka	4	3	4	3	2	3	3
Kuwait Republic	-	-	-	-	-	1	-
Pakistan	5	10	6	4	5	5	9
Malagasy Republic	2	5	3	2	5	3	0
C.A.R.	-	1	1	-	1	-*	1
Kenya	8	6	6	7	6	5	2
Mauritania	2	1	1	2	1	1	0
Sierra Leone	1	3	2	1	3	1	1
Total	24	31	27	22	24	20	-
Bangladesh	7	9	9	5	6	5	
India	14	19	18	11	12	14	
Total	21	28	27	16	18	19	-
<u>Others</u>							
Burma	3	4	5	3	3	3	3
Indonesia	10	11	17	9	10	11	8
Zaire	3	6	5	3	5	4	2
Nigeria	8	6	6	6	4	4	6
Gambia, The	1	1	-	-	2	-	0
Togo	1	2	2	2	1	1	1
Vietnam, Rep. of	-	-	-	1	2	3	-6
Total	26	30	35	24	27	26	-
Total Below \$200	108	135	137	97	107	108	-

	<u>Quotations Program</u>			<u>Lending Program</u>			<u>Total Margin of Slippage 75-77</u>
	<u>75</u>	<u>76</u>	<u>77</u>	<u>75</u>	<u>76</u>	<u>77</u>	
B. 8201-375							
<u>LLDC</u>							
Botswana	-	2	3	-	1	1	3
<u>LSAs</u>							
Cameroon	2	4	7	2	3	6	2
Senegal	4	5	4	3	4	5	1
Ghana	2	5	5	4	3	3	2
Honduras	2	2	6	1	2	2	5
El Salvador	1	2	2	1	1	1	2
Ivory Coast	<u>5</u>	<u>7</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>
Total	<u>16</u>	<u>25</u>	<u>29</u>	<u>15</u>	<u>17</u>	<u>21</u>	—
<u>Others</u>							
Bolivia	2	1	7	2	2	3	3
Philippines	7	10	9	7	7	8	4
Thailand	4	4	12	4	5	5	6
Egypt A.R.	6	5	6	4	5	5	3
Equat. Guinea	-	-	1	-	-	-	1
Liberia	3	4	2	2	2	2	3
Swaziland	3	1	2	3	-	2	1
Jordan	3	3	3	3	3	2	1
Morocco	3	7	7	2	4	5	6
Papua New Guinea	2	1	5	1	2	2	6
Gange P.A.R.	-	1	2	-	1	2	0
Australia	1	2	1	1	2	1	0
Korea	6	7	12	7	6	8	4
Paraguay	3	1	5	4	2	2	1
Syria A.R.	1	3	4	1	1	3	3
Uruguay	1	6	4	1	3	3	4
Turkey	<u>4</u>	<u>4</u>	<u>10</u>	<u>5</u>	<u>5</u>	<u>7</u>	<u>1</u>
Total	<u>45</u>	<u>60</u>	<u>92</u>	<u>47</u>	<u>50</u>	<u>60</u>	—
Total 8201-375	<u>65</u>	<u>85</u>	<u>121</u>	<u>62</u>	<u>67</u>	<u>81</u>	—
C. 8376-500							
<u>NSA</u>							
Guyana	1	2	2	1	1	1	2
<u>Others</u>							
Tunisia	6	4	5	4	4	3	4
Zambia	4	5	4	4	5	3	1
Colombia	5	7	15	6	5	7	9
Guatemala	1	2	3	1	1	1	3
Algeria	2	5	9	2	5	5	4
Malaysia	4	8	7	2	6	6	5
Nicaragua	-	2	3	-	1	1	3
Dominican Republic	4	1	3	-	2	2	4
China, Rep. of	-	-	-	-	-	-	-
Iran	6	4	3	6	5	3	-1
Fiji	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	<u>33</u>	<u>39</u>	<u>54</u>	<u>26</u>	<u>35</u>	<u>32</u>	—
Total 8376-500	<u>34</u>	<u>41</u>	<u>56</u>	<u>27</u>	<u>36</u>	<u>33</u>	—



Table 5

	<u>Operations Program</u>			<u>Lending Program</u>			<u>Total Margin of Slippage 75-77</u>
	<u>75</u>	<u>76</u>	<u>77</u>	<u>75</u>	<u>76</u>	<u>77</u>	
D. 4500-600							
<u>Others</u>							
Peru	2	5	8	2	4	5	4
Brazil	7	13	12	7	10	8	7
Guan	-	-	4	-	1	2	1
Costa Rica	2	2	3	1	1	2	3
Bahrain	-	-	2	-	1	2	-1
Lebanon	1	1	2	1	1	1	1
Mexico	5	9	9	4	6	6	7
Uruguay	-	1	2	1	1	1	0
Portugal	-	3					
Barbados	-	-	2	1	-	-	
Chile	2	4	4	2	3	3	2
Caribbean region	-	-	-	-	-	-	-
Total 4500-600	<u>12</u>	<u>38</u>	<u>48</u>	<u>19</u>	<u>28</u>	<u>30</u>	-

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3/10/75

Table 6

Average FY72-74 Project Cost Sharing Ratios<sup>1/</sup>

<u>Countries</u>	<u>Average IBRD/IDA Share of Project Cost (%)</u>	<u>Countries</u>	<u>Average IBRD/IDA Share of Project Cost (%)</u>
A. <u>Below 200</u>			
<u>LLDCs</u>		<u>Others</u>	
*Rwanda	88.5	Burma	61.5
Burundi	88.5	Indonesia	48.1
*Upper Volta	80.8	Zaire	
*Mali	71.2	Nigeria	
Afghanistan		Gambia, The	85.2
*Chad	87.0	Togo	
*Ethiopia	75.0	Vietnam, Rep. of	
Nepal			
*Somalia	96.5		
*Guinea	100.0		
*Lesotho	70.0		
*Niger	77.0		
*Yemen, A.R.	83.9		
Malawi	77.0		
*Dahomey	79.9		
*Sudan			
*Tanzania	62.5		
*Haiti	75.1		
*Laos			
Uganda			
Western Samoa			
<u>MSAs</u>			
Yemen, P.D.R.	82.6		
Sri Lanka			
Khmer Republic			
Pakistan	51.1		
Malagasy Republic			
C.A.R.	75.9		
Kenya	65.0		
Mauritania	79.8		
Sierra Leone			
Bangladesh			
India	45.8		



<u>Countries</u>	<u>Average IBRD/IDA Share of Project Cost (%)</u>
B. <u>\$201 - 375</u>	
<u>LLDCs</u>	
Botswana	88.8
<u>MSAs</u>	
Cameroon	71.2
Senegal	71.2
Ghana	
Honduras	
El Salvador	
Ivory Coast	70.8
<u>Others</u>	
Bolivia	83.2
Philippines	
Thailand	45.6
Egypt, A.R.	27.9
Equat. Guinea	86.9
Liberia	
Swaziland	
Jordan	
Morocco	
Papua New Guinea	
Congo, P.D.R.	
Mauritius	
Korea	
Paraguay	
Syria, A.R.	
Ecuador	40.2
Iraq	
Turkey	31.6

C. \$375 - 500		D. \$500 - 800	
<u>Countries</u>	<u>Average IBRD/IDA Share of Project Cost (%)</u>	<u>Countries</u>	<u>Average IBRD/ID Share of Project (%)</u>
<u>MSAs</u>		<u>Others</u>	
Guyana		Peru	
<u>Others</u>		Brazil	29.4
Tunisia		Oman	
Zambia	73.9	Costa Rica	
Colombia		Bahrain	
Guatemala	74.9	Lebanon	
Algeria	38.2	Mexico	40.4
Malaysia		Uruguay	37.8
Nicaragua	74.8	Portugal	
Dominican Rep.	40.1	Barbados	
China, Rep. of		Chile	
Iran		Caribbean Region	
Fiji			

\* Also classified as an MSA country.

1/ Project Cost Sharing Paper PRC/S/C/74-19 and President's Reports.



Third Window

BAVP

Mr. Hans A. Adler, Acting Regional Vice  
President, EAM  
Roger A. Hornstein, Acting Director, EACPII

March 10, 1975

Third Window

1. The attached Tables 1 and 2 reflect our preliminary views on the effects of Third Window lending on the allocations for countries in CPII during FY76.
2. I would like to record that we consider Lesotho eligible for some Third Window lending; if the road project shortly to be appraised in Lesotho requires more than the suggested allocation of \$4.5 million IDA, the balance could be derived from the Third Window.
3. Please let me know if you need any additional information.

RAH

Attachments  
RAHornstein:lmm

cc: Messrs. Barry, Maane, Maubouché,  
Please, Roulet, Schott, Wiehen o/r

TABLE 1 - FY76

(1)

(2)

(3)

	P&B Table IVa (3/3/75)			Latest Information EA CPII			Proposed Allocation			
	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	TW	Total
Botswana	11.0	-	11.0	11.0	-	11.0	11.0	-	5.0	16.0
Burundi	-	3.0	3.0	-	10.0	10.0	-	10.0	-	10.0
Lesotho	-	3.0	3.0	-	3.0	3.0	-	4.5	-	4.5
Madagascar	54.0	16.0	70.0	33.6	16.4	50.0	-	20.0	30.0	50.0
Malawi	6.0	12.0	18.0	-	10.0	10.0	-	10.0	12.0	22.0
Mauritius	13.0	3.0	16.0	5.0	-	5.0	-	-	5.0	5.0
Rwanda	-	16.0	16.0	-	16.0	16.0	-	26.0	-	26.0
Swaziland	-	-	-	-	-	-	-	-	-	-
Zaire	-	40.0	40.0	-	40.0	40.0	-	50.0	-	50.0
Zambia	55.0	-	55.0	50.0	-	50.0	50.0	-	-	50.0
TOTAL	139.0	93.0	232.0	99.6	95.4	195.0	61.0	120.5	52.0	233.5



TABLE 2

Proposed Changes  
(as compared to Current Information)  
Column 3 - Column 2 of Table 1

<u>Increases in IDA</u>	<u>25.1</u>
Lesotho	1.5
Madagascar	3.6
Rwanda	10.0
Zaire	10.0
<u>TW Allocation</u>	<u>52.0</u>
Botswana	5.0
Madagascar	30.0
Malawi	12.0
Mauritius	5.0
<u>Decreases in IBRD</u>	<u>38.6</u>
Madagascar	33.6
Mauritius	5.0

March 10, 1975

EASTERN AFRICA: Detail of Illustrative Bank Group Commitments for  
FY76 Without and With Third Window of \$1000 Million

<u>Countries</u>	<u>Mid-1972 Per Capita Income (\$)</u>	<u>I B R D</u>		<u>I D A</u>		<u>Third Window</u>	<u>TOTAL</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
Botswana	240	11	11	-	-	-	11	11
Burundi	70	-	-	3	3	-	3	3
EAC	150	65	65	-	-	18	65	83
Ethiopia	80	-	-	86	86	-	86	86
Kenya	170	65	30	12	15	40	77	85
Lesotho	90	-	-	3	5	-	3	5
Madagascar	140	54	34	16	20	20	70	74
Malawi	100	6	-	12	12	10	18	22
Mauritius	300	13	13	3	-	6	16	19
Rwanda	60	-	-	16	26	-	16	26
Somalia	80	-	-	-	-	-	-	-
Sudan	120	-	-	32	32	20	32	52
Swaziland	260	-	-	-	-	-	-	-
Tanzania	120	30	-	39	45	40	69	85
Uganda	150	-	-	-	-	-	-	-
Zaire	100	-	-	40	40	-	40	40
Zambia	380	55	64	-	-	-	55	64
TOTAL		299	217	262	284	154	561	655

NOTE: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.

THIRD WINDOW



WESTERN AFRICA: Detail of Illustrative Bank Group Commitment For  
FY1976 Without and With Third Window of \$1 Million

<u>Countries</u>	<u>Per Capita</u> <u>Income</u>	<u>I B R D</u>		<u>I D A</u>		<u>Third</u>	<u>T O T A L</u>	
	<u>Mid-1972</u>	<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>	<u>Window</u>	<u>WO/TW</u>	<u>W/TW</u>
Cameroon	200	16	10	25	15	26	41	51
C.A.R.	160	-	-	8	8	-	8	8
Chad	80	-	-	23	23	-	23	23
Congo	300	25	25	-	-	-	25	25
Dahomey	110	-	-	14	15	-	14	15
Equatorial Guinea	240	-	-	-	-	-	-	-
Gabon*	880	-	-	-	-	-	-	-
Gambia	140	-	-	7	7	5	7	12
Ghana	300	45	15	8	10	35	53	60
Guinea	90	-	-	8	10	-	8	10
Ivory Coast	340	30	30	-	-	25	30	55
Liberia	250	29	29	-	-	-	29	29
Mali	80	-	-	18	33	-	18	33
Mauritania	180	-	-	4	4	-	4	4
Niger	90	-	-	14	14	-	14	14
Nigeria	130	100	100	-	-	-	100	100
Senegal	260	17	10	10	10	30	27	50
Sierra Leone	190	19	10	5	5	14	24	29
Togo	160	-	-	7	7	5	7	12
Upper Volta	70	-	-	10	15	-	10	15
TOTAL	-	281	229	161	176	140	442	545

\* Country with per capita income higher than \$800.

Note: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.

EMENA: Detail of Illustrative Bank Group Commitment For FY1976 Without and With Third Window of \$1 Million

Countries	Per Capita	I B R D		I D A		Third Window	T O T A L	
	Income Mid-1972	WO/TW	W/TW	WO/TW	W/TW		WO/TW	W/TW
Afghanistan	80	-	-	24	24	-	24	24
Algeria	430	193	160	-	-	-	193	160
Bahrain	670	4	10	-	-	-	4	10
Cyprus*	1180	15	15	-	-	-	15	15
Egypt, A.R.	240	150	80	65	40	100	215	220
Finland*	2810	-	-	-	-	-	-	-
Greece*	1460	70	70	-	-	-	70	70
Iceland*	2800	-	-	-	-	-	-	-
Iran	490	150	150	-	-	-	150	150
Iraq	370	-	-	-	-	-	-	-
Ireland*	1580	20	20	-	-	-	20	20
Israel*	2610	-	-	-	-	-	-	-
Jordan	270	20	15	5	5	15	25	35
Lebanon	700	15	20	-	-	-	15	20
Morocco	270	90	90	-	-	-	90	90
Oman	530	6	6	-	-	-	6	6
Romania*	810	160	160	-	-	-	160	160
Spain*	1210	15	15	-	-	-	15	15
Syria, A.R.	320	40	40	-	-	-	40	40
Tunisia	380	60	60	-	-	-	60	60
Turkey	370	220	200	-	-	-	220	200
Yemen, A.R.	90	-	-	16	18	-	16	18
Yemen, P.D.R.	100	-	-	6	6	-	6	6
Yugoslavia*	810	200	200	-	-	-	200	200
Portugal	780	-	60	-	-	-	-	60
TOTAL		1428	1371	116	93	115	1544	1579

\* Countries with per capita income higher than \$800.

Note: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.



LAC: Detail of Illustrative Bank Group Commitments for  
FY '66 Without and With Third Window of \$1000 Million

<u>Countries</u>	<u>Mid-1972 Per Capita Income (\$)</u>	<u>I B R D</u>		<u>I D A</u>		<u>Third Window</u>	<u>TOTAL</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
Argentina	1290	100	85.2	-	-	-	100	85.2
Bahamas	2240	9	7.7	-	-	-	9	7.7
Barbados	800	-	-	-	-	-	-	-
Bolivia	200	21	20	5	-	20	26	40
Brazil	530	100	590	-	-	-	500	590
CABEI	-	-	-	-	-	-	-	-
Caribbean Region	550	-	20	-	-	-	-	20
Chile	800	70	59.6	-	-	-	70	59.6
Colombia	400	180	240	-	-	-	180	240
Costa Rica	630	30	25.6	-	-	-	30	25.6
Dominican Republic	480	15	30	-	-	-	15	30
Ecuador	360	30	30	-	-	-	30	30
El Salvador	340	14	10	-	-	10	14	20
Guatemala	420	6	15	-	-	-	6	15
Guyana	400	9	16	-	-	-	9	16
Haiti	130	-	-	10	15	-	10	15
Honduras	320	75	60	7	7	30	82	97
Jamaica	810	15	12.8	-	-	-	15	12.8
Mexico	750	410	490	-	-	-	410	490
Nicaragua	470	4	15	-	-	-	4	15
Panama	880	25	21.3	-	-	-	25	21.3
Paraguay	320	7	5	4	-	10	11	15
Peru	520	120	175	-	-	-	120	175
Trinidad & Tobago	970	10	8.5	-	-	-	10	8.5
Uruguay	760	35	50	-	-	-	35	50
Venezuela	1240	15	12.8	-	-	-	15	12.8
TOTAL		1700	1999.5	26	22	70	1726	2091.5

1/ P & B Table IV (3/3/75).

NOTE: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.

EAST ASIA AND PACIFIC: Detail of Illustrative Bank Group Commitments for FY1976

Without and With Third Window of \$1000 Million.

<u>Countries</u>	<u>Mid-1972 Per Capita Income (\$)</u>	<u>I B R D</u>		<u>I D A</u>		<u>Third Window</u>	<u>T O T A L</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
China, Rep. of	490	-	-	-	-	-	-	-
Fiji	500	5	10	-	-	-	5	10
Indonesia	90	400	400	-	-	-	400	400
Khmer Rep.	120	-	-	-	-	-	-	-
Korea	310	200	200	-	-	46	200	246
Laos	130	-	-	10	10	-	10	10
Malaysia	430	145	171	-	-	-	145	171
Papua New Guinea	290	11	11	5	5	5	16	21
Philippines	220	315	315	-	-	45	315	360
Singapore	1300	-	-	-	-	-	-	-
Thailand	220	150	150	-	-	45	150	195
Vietnam, Rep. of	170	-	-	50	50	-	50	50
Western Samoa	150	-	-	-	-	-	-	-
Total		1226	1257	65	65	141	1291	1463

Note: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.



SOUTH ASIA: Detail of Illustrative Bank Group Commitments for  
FY76 Without and With Third Window of \$1000 Million

<u>Countries</u>	<u>Mid-1972 Per Capita Income (\$)</u>	<u>IBRD</u>		<u>IDA</u>		<u>Third Window</u>	<u>TOTAL</u>	
		<u>WO/TW</u>	<u>W/TW</u>	<u>WO/TW</u>	<u>W/TW</u>		<u>WO/TW</u>	<u>W/TW</u>
Bangladesh	70	-	-	150	200	-	150	200
Burma	90	-	-	40	40	-	40	40
India	110	240	60	600	575	275	840	910
Nepal	80	-	-	18	22	-	18	22
Pakistan	130	50	50	75	70	75	125	195
Sri Lanka	110	-	-	35	45	30	35	75
TOTAL		290	110	918	952	380	1208	1442

NOTE: Country detail grouped by Region is taken from Table 3A (attached to Mr. Knapp's memo of March 11, 1975) where country detail is grouped by level of income. The amounts shown here have not been pro-rated to conform with the Board approved lending program.

## OFFICE MEMORANDUM

*Third Window*

TO: FILES

DATE: March 10, 1975

FROM: J. Burke Knapp *JBK*

SUBJECT: Third Window Loans

The following memorandum deals with a "loose end" in connection with the technique of Third Window Loans.

The question arises of what interest rate should be specified in the loan documents on Third Window loans. The alternatives, assuming that the regular Bank lending rate continues at  $8\frac{1}{2}$  percent, are as follows:

- a) Third Window loans could be made at  $4\frac{1}{2}$  percent, with provision for the Bank to obtain compensation from the subsidy fund so long as the available subsidy funds were adequate for this purpose. If the subsidy funds ran out because of exchange rate changes, unexpectedly rapid disbursements, or otherwise, the borrower would have to start paying the Bank at  $8\frac{1}{2}$  percent. This latter contingency would be appropriately covered in the loan agreement.
- b) The Third Window loan could be made at  $8\frac{1}{2}$  percent, but the borrower would be told that the Bank would waive collection of interest payments from the borrower to the extent that it obtained reimbursement from the subsidy fund.

The first alternative is reflected in the language of paragraph 3(d) of our Third Window paper, which says, "Third Window loans would have a standard interest rate of 4 percent below the IBRD rate".

However, the second alternative is suggested by the first sentence of paragraph 40 of our Third Window paper, which reads as follows: "The loan agreement for a Third Window operation would contain a covenant authorizing the Bank to draw on the interest subsidy on behalf of the borrower to meet the specified share of interest payments." (This sentence is in any case defective in its reference to the need for an authorizing "covenant" from the borrower.)

I have asked Mr. Goodman to consider this matter in consultation with Messrs. Gabriel and Fontein.

cc: Mr. McNamara o/r  
Messrs. Gaud, Chenery/Stern, Cargill, Broches, Gabriel, Goodman, Adler  
Regional Vice Presidents

JBKnapp:ism



E. Africa Programs - pending  
✓cc: BA+P: Third Window

Mr. R. Hornstein (for Mr. Michael H. Wiehen)

March 6, 1975

J.-D. Roulet

Third Window

I have the following comments on FY-76 program and proposed Third Window allocation prepared by R. Maubouché in respect of the countries in my Division.

1. I fully agree that on creditworthiness grounds, Rwanda and Burundi should not be regarded as eligible for Third Window financing and that in the case of Madagascar and Mauritius we should use the Third Window in replacement of IBRD funds. In the case of Malawi, I believe that Third Window financing could be supplemental to the modest IBRD allocation of \$5 million a year agreed at the last CPP review meeting.

2. Regarding the amounts, the following explanations may be useful:

Burundi

The amount of \$10.0 million shown in the "Latest Information EACPII" column is very notional at this time and consists of the proposed Fisheries Project (\$3.0 million) and of the Coffee II Project (slipped from FY-75 with an amount revised downwards from \$10 million to \$7 million, under the assumption that the coffee washing stations will not be economically justified). There is an outside chance that the Education Project (\$5 million), currently scheduled for FY-77, might be advanced, in which case we would have to increase the IDA allocation further, but at this stage this is highly speculative.

Madagascar

The amount shown in the "Latest Information/EACPII" column reflects my belief that the Irrigation III and DEM Projects will be postponed and that consequently the FY-76 Program will consist solely of the Fourth Highway (\$40 million), and Rogez Projects (\$10 million). We should note that the timing of the Rogez Project is still uncertain in view of the need to arrange co-financing, and that the amount of the Fourth Highway Project, to be appraised later this month, may have to be reduced if some of the major construction works proposed prove to be economically unjustified.

Malawi

The amounts shown in the P&B table IV-a are correct and reflect the decisions made at the CPP review meeting last October. In subsequent discussions with the Malawi Government, however, it turned out that the Water Supply Project, which we had expected to finance with IBRD funds in FY-76, will probably be financed by the United Kingdom.



Malawi therefore asked us to combine the FY-76 and FY-77 IBRD allocation to finance part of a Power Project currently scheduled for FY-77. The "Latest Information/EACPII" column should therefore show only \$10 million IDA to finance the Education Project scheduled for appraisal later this month. The proposal to use \$12 million of Third Window financing would enable us to advance the Karonga II Project which, on project grounds, is feasible.

Mauritius

The amounts shown in the P&B table IV-a are correct. The substantial reduction shown in the "Latest Information/EACPII" column reflects our present expectation that the Water Supply Project will be substantially delayed on project grounds (lack of agreement on the level of water rates) and that our participation in the DEM Project should be substantially reduced to force Malawi to contribute increased resources to its development program. If, against my expectations, Mauritius is prepared to take meaningful action in respect of water rates, we would, of course, wish to reinstate the Water Supply Project in FY-76. This project could be financed by using the balance of the IDA allocation (\$3.5 million), and about \$3 million with Third Window financing.

Rwanda

The Commercial Crops Project originally scheduled for FY-75 with \$9.5 million is now likely to slip to FY-76 but the amount may have to be considerably reduced. The amount of \$5 million currently earmarked for the Agricultural Development(Livestock)Project is purely notional at this stage. Finally, there are quite a number of uncertainties with respect to the supplemental financing required for the First Highway Project. The amount of \$20.0 shown in the "Latest Information/EACPII" column is therefore highly speculative.

cc: Messrs. Maubouché, Lan/Landell-Mills, Shonubi/Key, Schwartz/Meyer

JDRoulet:flm



Feb 1961 WA  
(2/14/75)

Later Information  
FACP II

Proposed Revision

	<u>16.0</u>	<u>10A</u>	<u>Total</u>
MINOR	11.0	-	11.0
MAJOR	-	3.0	3.0
REPAIR	-	3.0	3.0
REPAIR	53.6	16.4	70.0
REPAIR	5.0	13.0	18.0 ✓
REPAIR	13.0	3.0	16.0
REPAIR	-	16.0	16.0
REPAIR	-	-	-
REPAIR	14.0	45.0	59.0
REPAIR	50.0	-	50.0
TOTAL	<u>151.6</u>	<u>99.4</u>	<u>251.0</u>

	<u>16.0</u>	<u>10A</u>	<u>Total</u>
MINOR	11.0	-	11.0
MAJOR	-	10.0 ✓	10.0 ✓
REPAIR	-	3.0	3.0
REPAIR	33.6	16.4	50.0 ✓
REPAIR	<del>5.0</del>	10.0	15.0
REPAIR	5.0	-	5.0 ✓
REPAIR	-	20.0	20.0
REPAIR	-	-	-
REPAIR	-	40.0	40.0
REPAIR	50.0	-	50.0
TOTAL	<u>104.6</u>	<u>93.4</u>	<u>198.0</u>

	<u>16.0</u>	<u>WA</u>	<u>TW</u>	<u>Total</u>
MINOR	11.0	-	5.0	16.0
MAJOR	-	10.0	-	10.0
REPAIR	-	4.5	-	4.5
REPAIR	-	20.0	33.6	53.6
REPAIR	-	10.0	12.0	22.0
REPAIR	-	-	5.0	5.0
REPAIR	-	20.0	-	20.0
REPAIR	-	-	-	-
REPAIR	-	50.0	-	50.0
REPAIR	50.0	-	-	50.0
TOTAL	<u>61.0</u>	<u>118.5</u>	<u>55.6</u>	<u>235.1</u>

# PROPOSED CHANGES

(as compared to Current Distribution)

## Increases in RFP

	25.1
LEADERS	1.5
PROSECUTOR	3.6 ✓
ADVISOR	4.0 ✓
2000	10.0
Bond	2.0 ✓

## TW Allocation

	55.6
PROSECUTOR	5.0
ADVISOR	33.6
ADVISOR	12.0
ADVISOR	5.0

## Decrease in RFP

	43.6
PROSECUTOR	33.6
<del>ADVISOR</del>	<del>10.0</del> ?
ADVISOR	5.0

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

*Geny pl file*

POLICY REVIEW COMMITTEE

DECLASSIFIED

JUN 05 2025

WBG ARCHIVES

PRC/M/75-2a

March 10, 1975

ESTABLISHMENT OF THIRD WINDOW

MINUTES

Attendance:

Messrs. McNamara, Knapp, Baum, Broches, Cargill, Chenery, Benjenk, Chaufournier, Krieger, Weiner, Gaud, Adler, H., Adler, J.H., Haq, Nurick, Stern, van der Tak, Votaw, Vibert (Secretary)

1. A meeting of the Policy Review Committee was held on Tuesday, March 4, to discuss the draft Board paper on 'Establishment of Third Window.'
2. There was general agreement that the paper should go forward to the Board proposing the establishment of a Third Window for a one-year period. The Senior Vice President, Operations, was asked to review the question of allocation of Third Window lending including the reallocation of IDA and IBRD so that by March 17 there would be available:  
(i) a tentative allocation country by country; (ii) a summary by the relevant income per capita groupings; and, (iii) a note describing the guidelines followed.
3. The President said that the paper should be sent to the Board immediately (incorporating various changes of detail). Following the Board discussion on April 1, a meeting of potential contributors should be held later in April so that a definitive proposal could be made in May. This would enable the Development Committee to be informed of the status of the proposal in advance of its June meeting.

Frank Vibert  
Secretary  
Policy Review Committee

cc: Those Attending



DOCUMENT OF *Third Window*  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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**FOR  
EXECUTIVE  
DIRECTORS'  
MEETING**

**JUN 05 2025**

**WBG ARCHIVES**

For consideration on  
March 25, 1975

R75-39

FROM: The Secretary

March 5, 1975

ESTABLISHMENT OF A THIRD WINDOW

Attached is a copy of the President's memorandum entitled  
"Establishment of a Third Window - An Intermediate Financing Facility".

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Directors and Department Heads, Bank and IFC



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

March 5, 1975

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: ESTABLISHMENT OF A THIRD WINDOW - AN INTERMEDIATE  
FINANCING FACILITY

1.

I. Introduction and Recommendations

1. The "Third Window" refers to a new lending facility which would extend loans to the developing countries on terms intermediate between those now charged by the Bank and IDA. The possible establishment of a Third Window was discussed in the recent IBRD Financial Policies Paper (Review of IBRD/IDA Program and Financial Policies, F-74/256 dated December 11, 1974). It also was discussed in the meeting of the Development Committee on January 17, 1975, where several of the OPEC countries and the Netherlands expressed strong interest in the Third Window. As a result, the concept was widely endorsed by the other Ministers present at the Development Committee meeting and was referred to the Executive Board of the Bank for further study and preparation of a specific proposal.

2. Before preparing a firm proposal for the Board's review, the management intends to hold a series of meetings with potential contributors. The purpose of the present memorandum is to inform the Board of the basis upon which the management would conduct these meetings and to give members of the Board an early opportunity to make known their preliminary views on particular issues so that these may be taken into account both in the proposed meetings and in the subsequent formulation of a definite proposal. We would plan to present the definitive proposal to the Board in May and would be prepared to report the Board's reaction to the Development Committee at its June meeting.



3. The principal features of the Third Window proposal to which reactions of potential contributors will be sought are the following:

- (a) Scale - Third Window IBRD commitments of approximately \$1 billion in FY76 are envisaged. These commitments would be in addition to presently planned IBRD and IDA lending programs.
- (b) Duration - The proposal is for a scheme for just one year. For this interim period, contributions to an interest subsidy account would be sought on a strictly voluntary basis and not as part of a negotiated burden-sharing agreement.
- (c) Beneficiary Countries - Countries with 1972 per capita income of up to \$375 which meet minimum creditworthiness and performance standards would be eligible for Third Window loans. Reallocation of both IDA credits and standard IBRD loans would benefit substantially those countries which could not qualify for Third Window loans.
- (d) Terms - Third Window loans would have a standard interest rate of 4% below the IBRD rate. For project lending, which is expected to account for the bulk of Third Window commitments, maturities would approximate 25 years with a 7-year grace period.
- (e) Interest Subsidy Arrangements - Contributions of approximately \$225 million in investable form would be required to finance the 4% interest subsidy over the life of the loans.
- (f) Borrowing Requirements - The funds needed to finance disbursements would be borrowed by the Bank as an addition to its regular borrowing program. Between \$200 and \$300 million extra would need to be borrowed in each of the years FY77 through FY79.
- (g) Implications for the Bank's Reserve Target - In principle, additional equity (perhaps \$150 million by the early 1980's) should be provided to protect the Bank against the risks of Third Window loans. However, this requirement would be sufficiently small, both in relation to presently projected levels of equity and to the margin of error in our reserve target, as to make corrective action unnecessary for a one-year proposal.



- (h) Management Provisions - Each Third Window loan would be approved by the Bank's Executive Directors. The allocation of interest subsidy funds would be made after consultation with the contributing countries.

## II. The Need for a Third Window

### A. The Economic Background

#### Capital Needs of the Developing Countries

4. The outlook for developing countries in the second half of this decade was examined in the staff study "Prospects for the Developing Countries" (SecM74-489 dated July 1974). Analysis at that time showed the outlook for the poorest developing countries, including the UN-designated "least developed" and many of those "most seriously affected" by the current situation, to be bleak for the rest of the decade. There appeared little prospect of an increase in the per capita incomes of the poorest countries, and restoration of development momentum called for an increase in capital flows on concessionary terms much in excess of expected disbursements from the traditional donors (members of OECD/DAC) and from the new sources of capital among the oil-exporting countries. It was estimated that the flow of official development assistance (ODA) and other concessionary lending would have to increase in current prices by over \$2 billion a year from \$12 billion in 1973 to some \$30 billion in 1980 if the poorest countries were to resume a minimum acceptable rate of advance.

5. Prospects for some of the "middle income" developing countries were also clouded. A number of them had substantially larger borrowing requirements as a result of import prices rising faster than the prices of their exports, at the same time as markets for their exports are being affected by the slowdown in the industrialized countries. To what extent these countries could meet their borrowing requirements from private sources in the face of the various pressures on their debt carrying capacity was also uncertain. For many of them, the task of debt management and borrowing in sufficient volume could be substantially assisted by additional flows from official and multilateral sources.

6. Recent re-examination of the situation faced by these two groups of countries suggests that prospects through 1980 may be worse than assumed in our earlier analysis -- implying even greater capital needs. A joint IMF/IBRD staff study of



the prospects for the most seriously affected countries in 1975 indicated a financing requirement of about \$2 billion in 1975 <sup>1/</sup>, over and above assistance flows currently in sight, including the 1975 Oil Facility. A number of factors suggest that the longer term prospects for the other poor countries and for the middle income developing countries have also deteriorated. Efforts to combat domestic inflation in the OECD countries are proving to be less successful or are at least taking longer to achieve results than originally foreseen. At the same time, and associated with the need to restrain inflation, real growth has been more seriously interrupted than earlier envisaged. Since developments in the OECD area do much to determine the economic environment -- particularly the export prospects -- for developing countries, the outlook for the developing countries themselves is now more difficult. For developing countries as a whole the terms of trade are now projected to deteriorate more than had earlier been foreseen, suggesting further constraint on the rate of economic advance unless there is a compensating increase in the flow of capital on appropriate terms. <sup>2/</sup>

#### Sources of Capital

7. The current indications are that flows of capital, particularly of concessionary capital, will fall far short of what is required. Members of the Development Committee have announced their intent not to decrease assistance efforts but rather to endeavor "to improve the real volume and the quality of official development assistance." <sup>3/</sup> Nevertheless, unless there are major new initiatives by the largest industrialized donors, the prospects are for a relatively modest annual increase in aid disbursements from DAC members and a further fall in assistance expressed as a proportion of GNP. ODA from DAC members is now expected to be around 0.2% of GNP in 1980, down from .32% in 1973.

8. The new donor countries, those net oil-exporting countries with large financial surpluses in excess of their immediate capacity to use them for sound domestic development purposes, have made major commitments of assistance in the short period since the surpluses have begun to materialize. Disbursements,

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<sup>1/</sup> DC-74-6 dated December 23, 1974.

<sup>2/</sup> The revised prospects for the developing countries through the end of the decade will be discussed in detail in "Capital Requirements of the Developing Countries", due to be distributed to the Executive Directors approximately April 1, 1975.

<sup>3/</sup> Development Committee Press Communique dated January 17, 1975.



however, will take time to build up. The flow of assistance with a significant concessionary element is estimated to have averaged around \$1.5 billion per year in 1973 and 1974 and is expected to increase significantly in the next few years on the basis of rapidly rising new commitments in 1974.

9. However, taking into account both the initiatives of the new sources of capital and the programs of the traditional donors, it seems clear that flows of capital from both sources will be inadequate to support reasonable rates of growth in the developing countries, particularly among the poorest. The overall shortage of assistance is further aggravated by the fact that the distribution of assistance does not always correspond closely to the development needs or capacities of the recipients.

10. Against this background, the focus of assistance efforts needs to be placed on the volume of resources provided. While it would be desirable to have a substantial increase in grant or IDA-type assistance, if that cannot realistically be attained in the short-run, then it is vital to explore alternative means of substantially increasing flows on intermediate terms (between market terms and grant-like terms). In inflationary circumstances the concessionary element of the intermediate terms will in fact be very high. (For example, intermediate terms involving lending at a rate of interest of 3% to 5% and with maturities of 20-30 years would carry a grant element averaging around 45-50%; this would rise to around 70% if the effect of current and prospective inflation is taken into account.) In the context of Bank Group operations, lending at intermediate terms would imply terms between those of IBRD and IDA -- hence the use of the term "Third Window" as discussed in the IBRD Financial Policies Paper (paragraphs 97-105).

#### Relationship of a Third Window to Other Aid Programs

11. The current situation is being met in part through a variety of emergency mechanisms, notably through the UN Emergency Operation and the IMF Oil Facility. To provide still further balance of payments support on concessionary terms, the Development Committee requested the Executive Boards of the Fund and the Bank to study proposals for a special trust fund. 1/

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1/ "Prospects for the Special Fund", to be distributed to the Executive Directors for discussion on April 1, 1975.



12. The Third Window is not envisaged as a means of providing balance of payments support. Unless developing countries have assurances of additional assistance over and above short-term balance of payments support, development programs will necessarily be cut back further and high priority projects will inevitably have to be postponed or abandoned. To provide such assurances, additional commitment authority is urgently needed in addition to the disbursement requirements in 1975 and 1976. Thus the Third Window as proposed does not obviate the need for serious consideration of Special Trust Fund, which might provide short-term balance of payment assistance on concessional terms to the poorest countries.

13. Eventually, the additional assistance required by the poorest developing countries to sustain minimum acceptable levels of growth will require additional highly concessionary resources on a long-term basis. For this reason, whatever action may be taken on the Third Window proposal, contributions to IDA should continue to receive the highest priority for Bank members.

#### B. The Beneficiaries of a Third Window

##### Eligibility Criteria

14. A determination of which countries are to benefit from the introduction of a Third Window should rest on a country-by-country analysis similar to the assessment carried out in arriving at decisions on IDA allocation. Certain general criteria, which of course would have to be discussed with potential contributors, are listed below:

- (a) A Poverty Criterion - Since Third Window resources will be limited, and finance on highly concessionary terms is generally scarce, it seems reasonable that preference in borrowing should be given to the poorer developing countries. It is therefore proposed that Third Window loans be extended to countries with 1972 per capita income below \$375 (the current IDA limit). As in the case of IDA credits, a per capita income level criterion would not entirely preclude other countries at higher levels from receiving assistance nor would it guarantee assistance to those below.
- (b) Performance - As in the case of both IBRD and IDA lending, Third Window loans would only be extended to those countries regarded as making reasonable development efforts in relation to the resource base and development potential of the country.



- (c) Ability to Repay - Although as mentioned, Third Window resources would contain a substantial concessionary element, potential recipient countries must be judged able to repay the loans on intermediate terms, taking account of the deterioration of their terms of trade and other factors affecting their long-run capacity to repay loans in foreign exchange.
- (d) Access to Alternative Sources of Capital - Given the limited resources likely to be available, it would also seem relevant to take into account the access of a country to alternative sources of capital. Thus even if a country is eligible for Third Window loans on poverty and performance grounds and in terms of its ability to repay, it would not necessarily receive Third Window loans if it has access to alternative sources of capital on terms which are reasonable in relation to its development prospects.

#### Impact on Bank Group Assistance

15. While the \$1 billion in Third Window commitments would be additional to the proposed total IBRD/IDA program, it would not always be fully additional at the country level since in certain cases, Third Window lending in a country would substitute, in whole or in part, for IDA credits or Bank loans. It is estimated, on an illustrative basis, that countries with per capita of less than \$200 would receive about half of direct Third Window lending while the other half would go to countries with per capita incomes above this. The indirect effects of Third Window lending would also be important. The IDA resources released from countries receiving Third Window loans would be reallocated to those poorer developing countries which would not qualify for direct Third Window loans on creditworthiness grounds. Where Third Window loans replace previously planned IBRD loans, countries with higher per capita incomes, including those with per capita incomes above \$375, would benefit from the re-allocation of these funds. Taking into account both the direct and indirect effects of Third Window lending, the poorest countries might receive a net increase in total Bank Group assistance of approximately 20%, with an appreciable softening of the average terms of that assistance.

16. The prospect of enlarged Bank Group assistance raises the question of whether the increase in lending can be accommodated within the planned program of operations. In view of the present project pipeline, it is believed that additional lending commitments of \$1 billion in high priority development projects can be brought to the Board in FY76. The budgetary implications of such action would be examined in connection with the review of the FY76 budget -- their effect on projected net income is not likely to be great.



### III. The Scale of Initial Operations and Financing Requirements

#### Volume of Commitments

17. Two main considerations underlie the recommendation that \$1 billion in Third Window commitments be adopted as a target for the initial year. First of all, while additional lending of this magnitude would clearly make a material contribution to the financing requirements of the low and middle income developing countries, it is sufficiently small in relation to their reasonable requirements for assistance to avoid any suggestion that the Third Window could overlap or duplicate other aid initiatives which have been proposed. Secondly, account has been taken in a very preliminary fashion of the volume of concessionary resources which might be obtained as contributions to an interest subsidy fund.

18. The scale of operations can of course be adjusted to fit the amount of contributions actually obtained. However, as the volume of commitments is reduced, it becomes progressively more difficult to develop rational and administratively practical allocation proposals, particularly since we are dealing with a one-year scheme. For this reason, it would not seem desirable to initiate a Third Window operation unless contributions to the interest subsidization fund were to permit commitments of at least \$500 million in the initial year. What this volume of commitments implies in terms of concessionary contributions depends on the particulars of the financing arrangements envisaged for the Third Window.

#### Financing Arrangements

19. There are three distinct financial requirements for the operation of a Third Window:

- (1) Contributions to an interest subsidy fund will be required, either in the form of grants, low interest loans, or other financial transactions of equivalent value;
- (2) The funds necessary to finance incremental disbursements under Third Window loans will need to be borrowed;
- (3) The financial integrity of the Bank would have to be protected against the risks of Third Window loans.

Each of these requirements may be considered separately.



#### A. Interest Subsidy Requirements

20. The amount of concessionary resources needed to finance the interest subsidization of Third Window loans will obviously depend upon the volume of lending to be undertaken and the terms offered on individual loans. If lending of \$1 billion at an interest rate of 4% below the IBRD lending rate is to be achieved, an interest subsidization fund of about \$225 million will be required. The exact amount needed can only be determined once agreement is reached on the precise terms of the loans -- including not only the interest rate, but also the grace period and final maturity. It will also be important to know the approximate rate at which loans are likely to be disbursed and the rate of return to be earned on the resources contributed to the interest subsidy fund.

21. Additional lending to the poorest and most seriously affected countries requires a substantial subsidy. For illustrative purposes, an interest subsidy of 4 percentage points has been adopted. In addition, with relatively little additional cost to the subsidy fund, it is possible to extend the grace period on loans from the 3 or 4 years typical of IBRD loans to, say, seven years. With this interest rate and grace period, a final maturity of 25 years is consistent with an interest subsidy fund of about \$225 million. While it would be attractive to offer Third Window loans with somewhat longer maturities, say 30 years, in the present circumstances it has been thought preferable to keep the cost of the subsidy fund low in relation to the volume of commitments which is to be subsidized, since this "leverage" is one of the principal attractions of a Third Window operation.

#### Form of Contributions

22. Contributions to an interest subsidy fund could take any one of a number of possible forms. The simplest would be an outright grant, paid in full at the outset. The figure of \$225 million cited as the target size of the interest subsidy fund refers to payments received in this form. If contributions were to be paid in over a number of years, their value to the interest subsidy fund would be somewhat less by virtue of the fact that no investment income would have been earned on the contributions in the meantime. Some contributors might find it convenient, for example, to support the interest subsidy fund by designating a portion of the interest due them on IBRD bonds to be paid on their behalf to the interest subsidy fund. The equivalent of a \$20 million grant contribution could be accomplished, for example, by contributing two percentage points of interest on a \$150 million 10-year bond.



23. Another way of supporting the subsidy fund would be for a contributor to make a new loan to the Bank at less than market rates of interest. The grant-equivalent value of such a loan to the interest subsidy fund would be calculated in the same way as contributions of interest due on an existing IBRD bond. But a new loan at concessionary rates, if it were additional to what the contributing country would normally invest in IBRD obligations, would have the other important advantage of providing a part of the capital funds needed to cover disbursements under Third Window loans.

24. Consideration might also be given to still another form of contribution. Several OECD and OPEC countries have IBRD loans outstanding which carry interest rates well below the present level of 8.5%. Repurchase at par of these loans by the Central Bank or other institution in the borrowing country would involve a financial "cost". Without weakening its own financial position, the IBRD could acknowledge such a prepayment and consequent financial "cost" by transferring to the interest subsidization account the difference between the par value of the loan and its discounted value. This difference would be considered as a contribution by the repurchasing country. As in the case of new loans to the Bank at less than market interest rates, this form of contribution would help cover the capital requirements for funding disbursements under Third Window loans.

#### Source of Contributions

25. The Third Window was discussed by the Development Committee at its meeting on January 17th. Mr. Al-Hamad, speaking on behalf of a group of countries which included several major oil exporters, stated that some of the countries he represented had agreed to make a meaningful contribution to the interest subsidy needs of a Third Window -- such contributions to be contingent upon contributions from some OECD countries. As a result of this strong expression of interest by several of the OPEC countries, the Third Window proposal was widely endorsed by the other Ministers present and referred to the Executive Board of the Bank for study and for preparation of a specific proposal.

26. During the Board discussion of the IBRD Financial Policies Paper, the question of how contributions might be obtained was briefly discussed. It seemed to be generally acknowledged that a negotiated burden-sharing agreement would require many months, if not years, to conclude. In order to get the Third Window off to a more rapid start, the Netherlands had indicated that it would be willing to make an advance contribution on a voluntary basis before a burden-sharing agreement has been negotiated.



27. The present proposal to initiate operations of a Third Window can be successful only if the principle of voluntary contributions is accepted for this year. It must also be recognized that the "burden" of supporting a Third Window is not limited to the contributions required for the interest subsidy fund. The borrowing requirements and the bearing of risk with respect to Third Window loans must also be taken into account.

#### B. Borrowing Requirements

28. The funds needed to finance disbursements under Third Window loans will have to be borrowed by the Bank. The table below shows the effect of the proposed one year program on the Bank's projected gross borrowings. It will not be necessary for the Bank to borrow any additional sums in FY76 because the presently projected holdings of liquid assets are more than sufficient to finance first year disbursements under Third Window loans and still remain above 40% of the borrowing requirements in the next three years, as required under the Bank's present liquidity policy.

#### Borrowing Requirements of Third Window Proposal (\$ million)

	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
<u>Gross Borrowings</u>				
Present Program	3200	3550	3900	4800
For Third Window	--	+200	+300	+220
Total	<u>3200</u>	<u>3750</u>	<u>4200</u>	<u>5020</u>
<u>Liquid Holding (End Year)</u>				
Present Program	5698	5900	6320	6878
With Third Window	5648	5833	6330	6932
- As % of next three years' borrowing requirements	48.3	42.8	40.0	40.0

29. The additional borrowings would of course add to the Bank's funded debt, bringing the projected level to \$19.6 billion at the end of FY78 and \$23.3 billion at the end of FY79. These increases, which amount to about 3% over what was previously projected, are not significant in themselves. But they do lead to the question of what steps, if any, need to be taken to insure that the Bank can prudently incur the added risks of Third Window loans.



C. Implications for IBRD Reserve Target

30. The recent paper on IBRD Financial Policies (R74-256) examined at some length the adequacy of the Bank's capital. It argued that the Bank's total capital -- including both paid-in and subscribed capital as well as retained earnings -- would be adequate for several years to come in assuring creditors that the Bank's assets will always be sufficient to meet its obligations to creditors. Establishment of a Third Window to operate at the level of \$1 billion in a year does not materially affect the adequacy of the Bank's capital when judged from this point of view. The present proposal, which encompasses a single year only, would alter the timing of the effect of Article III, Section 3, of the Bank's charter by less than 90 days. 1/

31. The Bank's capital must also be adequate to assure shareholders that the possibility of a call on the unpaid portion of their capital subscriptions remains remote. The critical factor in this connection is the relationship between the volume of loans outstanding and disbursed and the Bank's "equity." 2/ The IBRD Financial Policies Paper tentatively established a figure of 15% as a "reserve ratio" on which to base the Bank's planned accumulation of paid-in capital and retained earnings. Since about 80% of the \$1 billion lending envisaged for FY76 under the Third Window proposal would still be outstanding in the mid-1980s, simple application of this 15% target would imply the need to add about \$120 million to equity over the next decade.

32. It is far from clear, however, that the 15% target, which was derived as an average for the whole loan portfolio, should apply to the \$1 billion of Third Window lending. While the allocation criteria proposed (see Paragraph 14 above) would prevent Third Window loans from going to countries which fail to meet minimum creditworthiness standards, the bulk of the \$1 billion would go to the poorest and most seriously affected developing countries, many of whom face difficult development prospects over the next several years. This consideration would favor a higher figure for capital and/or reserve accumulation.

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1/ Under Article III, Section 3, of the Articles of Agreement (entitled "Limitations of Guarantees and Borrowings of the Bank"), "the total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank."

2/ As in the IBRD Financial Policies Paper (Para. 34), "equity" is here defined as usable paid-in capital plus retained earnings plus the Special Reserve.



33. There are several countervailing considerations. The most important of these is the fact that Third Window loans have been used to substitute for previously planned IBRD lending in a few of the countries with per capita income below \$200 where additional exposure would otherwise require a very large proportionate increase in IBRD equity. Although this substitution affects only a minor part of total Third Window lending, it results in a major reduction in the associated requirement for increases in Bank equity. Another factor which should not be forgotten is that, even where Third Window loans increase Bank exposure, they also affect the development prospects of the borrowers. A fundamental reason for establishing a Third Window at this time is that additional loan funds are needed to prevent postponement or cancellation of projects which may be expected to have very high developmental returns. Since these investments will be financed on intermediate terms, the net impact on borrowers' economic and financial position should be distinctly favorable. Thus the risks faced by the Bank on amounts which would be outstanding in these countries even without a Third Window may be lessened.

34. The net effect of these various considerations will vary from country to country, but on balance suggest that \$150 million would appear to be a reasonable approximation of the additional reserve required. This amount is so small in relation to presently projected levels of equity (over \$7 billion in FY85) and in relation to the uncertainty surrounding the Bank's basic reserve target that no specific action is required for a one-year scheme.



#### IV. Organization and Procedures

##### Authorization for a Third Window

35. Since the funds needed to finance disbursements under Third Window loans will be borrowed by the Bank and will represent the same potential claims on callable capital as all other Bank borrowings each Third Window loan will have to be approved by the Executive Directors as in a standard IBRD loan. Basic policies concerning, for example, procurement would continue to apply.

36. The interest subsidization fund itself would be established on the basis of a master agreement to which contributing countries and the Bank would subscribe. The master agreement would detail the character and timing of the contributions to be made, the investment policy of the fund, the method of drawing on it, and the administrative and reporting arrangements which would prevail. In addition, the master agreement would provide for consultation on the allocation of interest subsidization payments. Each of these aspects will be discussed with the potential contributors in the series of meetings proposed to take place over the next few weeks.

##### Payment of Contributions

37. Payment would be made in the form of usable currencies which would be freely investable by the interest subsidization fund. Initial payments (or their equivalent) would be due within 90 days of the effectiveness of the new facility.

##### Investment Policy

38. The resources contributed to the interest subsidization and the Fund's income would be held in trust and kept separate and distinct from the Bank's assets. Since the obligations of the interest subsidy fund would take the form of small payments due semi-annually over a 25 year period, it would seem advisable for the fund to purchase obligations of the requisite maturities at the outset of the scheme. One approach would be for the Bank itself to sell to the interest subsidy fund a serial bond, carrying an interest rate equal to the Bank's projected average cost of borrowing in FY76. The maturity schedule of the serial bonds would be designed to match the time profile of the obligations of the interest subsidy fund. The same principle could be applied through purchases of securities in the private capital markets. In either event, the uncertainty concerning future interest rate movements and hence the rate of return on investments of the interest subsidy fund would be removed.



#### Exchange Rate Changes

39. Because the assets of the interest subsidization fund would be made available in freely investable form, it is assumed that contributors would not be asked to maintain the value of contributions in terms of gold or some other standard. Since the currencies used for Third Window loans are likely to be disbursed in different currencies than those held as assets in the interest subsidization fund the real value of the fund will be affected by changes in the exchange rates of the various currencies involved. This is so because the interest due on Third Window loans (4.5% from the borrower and 4% on the borrower's behalf from the interest subsidy fund) is determined as a percentage of the currencies actually used to finance the loan. The exchange risk which could arise in this way is likely to be small in relation to the total interest subsidy received and it is proposed that it be borne by the borrower. The risk may be minimized by investing the interest subsidy fund in assets with a mix of currencies which closely approximates the currencies likely to be disbursed under Third Window loans.

#### Method of Drawing

40. The loan agreement for a Third Window operation would contain a covenant authorizing the Bank to draw on the interest subsidy fund on behalf of the borrower to meet the specified share of interest payments. To provide for possible exchange rate risks as well as for variations in the rate of disbursement on individual loans a ceiling would be placed on the total interest subsidy payments (reduced to their present value) which could be made for the particular loan. Once this ceiling is reached, all further interest obligations (which, of course, would be small) would have to be met by the borrower.

#### Administration and Reporting

41. The Bank would act as administrator of the fund on behalf of the contributing countries. As administrator, the Bank would open and operate such accounts as would be necessary to carry out the purposes of the fund. The Bank would consult informally with the contributing countries on a regular basis and would prepare periodic reports on the financial condition and operations of the fund.

#### Date of Effectiveness

42. The objective of management is to bring the Third Window into operation as early as possible in FY76.

*Robert S. M. Naman*



## OFFICE MEMORANDUM

*Third Window*

TO: Mr. I. P. M. Cargill

DATE: March 3, 1975

FROM: Masaya Hattori *Mattori*U R G E N TSUBJECT: Comments on the Paper "Establishment of the Third Window"  
(To be Reviewed March 4, 1400 hours in the President's Office)

1. I have serious reservations about paragraph 26 (page 19) where it is proposed that low interest Bank loans be repurchased at par by the Central Bank of other institution of borrowing country and the difference between the par value of the loan and its discounted value be transferred by the Bank to the interest subsidization account. This procedure will imply the Bank will take a capital loss on its assets or make an expenditure to the interest subsidization fund. As a matter of financial mathematics, the operation is feasible; whether it is allowable on accounting grounds is quite another question. If the repurchasing country is to get recognition of its financial sacrifice, the procedure would be for the Bank to negotiate the sale of its loan at a loss combined with the engagement that the repurchasing agency would pay to the interest subsidization fund, the difference between the par value and the sales value of the loan. It is against all established rules of financial accounting to incur capital losses conditional to the return of the profits by the purchaser to the seller for specific uses. Capital losses should be incurred only in accordance to market condition.

If the repurchaser were to pay the full face value of the loan there will be no basis for the Bank to transfer the difference between the discounted value and the face value to the interest subsidization account. There has been no income in the accounting sense. The book value of the loan has been replaced by cash in exactly the same amount, therefore there is no new income to be transferred to the interest subsidization account, hence it must come out of administrative expenses or disposal of net income. It is hard to see how the Bank could make such payments.

2. With respect to the statement of paragraph 29 that "it has been assumed that a significant portion of the initial voluntary contributions will come from the OPEC countries" - it might be advisable to prepare a clarification that "a significant portion" would mean up to 50%. Mr. Kochman's mission as well as Mr. Witteven's report to the Fund Board indicate that the OPEC countries are not willing to let the industrialized countries share in new aid schemes drop below 50%.

cc: Messrs. Gabriel, Nurick and Gaud.

MHattori:ed  
IBRD



Capital Increase

Objective

1. To propose the subscription by individual OPEC countries of additional shares in amounts that if all countries accept in full, would bring the collective voting power of those countries to 15% of the total voting power.

To provide for the possibility for non-oil non Part I countries to subscribe additional shares in order to minimize the resulting reduction of their relative voting power.

It will be borne in mind that it would be unrealistic to propose a scheme that would reduce U.S. voting power below 20%, or one that would require new subscriptions by Part I countries.

2. Since only 10,995 shares (1,099.5 million 1944 dollars) available for distribution, the authorized capital must be increased.

(1) If the operation is limited to OPEC countries, 33,966 shares will have to be issued. An increase of the authorized capital of 11.11% or 3.0 billion 1944 dollars would be adequate. An increase of this magnitude would not endanger the appointed executive director seats through the exercise of preemptive rights by the largest non-oil non Part I shareholder.

(2) The "two-stage" calculation scheme would require if all countries accept in full, the issue of 41,201 shares. The authorized capital increase would be 3.5 billion 1944 dollars or 12.96% increase. An increase of this magnitude will not endanger the

appointed Executive Director seats by preemptive rights.

The "two-stage" scheme would however reduce U.S. voting power to 19.78%, if all eligible countries accept in full. However a reduction of the non-oil non Part I countries' additional shares by 700 (70 million 1944 dollars) will avoid this inconvenience.

3. There seems no way to avoid a disruption in the elected Executive Directors seats.

- (1) The present 2 Arab groups will collectively hold 14.27% of the total voting power or 23.47% of the election votes (24.80% if China and South Africa do not participate), enabling them to select 3 if not 4 Executive Directors. Further it seems highly improbable that Algeria and Iran would continue in the same election group.
- (2) The 3 Latin American groups will hold only 12.56% of the election votes, hardly enough to keep 1 seat .
- (3) The 2 African groups will hold slightly more than 10%, not enough for keeping 2 seats.
- (4) The other (European) groups will have to be consolidated.

4. The steps to be taken now are:

- (1) Obtain the agreement of the OPEC countries on the order of magnitude of their individual new subscriptions;



- (2) Then start negotiations with Part I countries for their approval for the operation and the waiver of preemptive rights;
- (3) Advise the non-oil non Part I countries of the operation and the possibility for their subscribing additional shares.

Third Window

DRAFT  
Unrevised

March 3, 1975

TO: Mr. Robert S. McNamara

FROM: William Gaud

SUBJECT: Third Window: Meeting with Nordic Countries'  
Representatives in Copenhagen

1. I had an exploratory meeting with the representatives of the Nordic countries on February 27, 1975 in Copenhagen. The meeting was arranged through Mr. Sigurdssen. The following officials attended:

Denmark (Ministry of Foreign Affairs)

Mr. Bjørn Olsen

Mr. Ole Lisborg

Miss Ellen Marg. Løj

Norway

Mr. Lovold                      Ministry of Commerce

Mr. Per Gulowsen            Ministry of Foreign Affairs

Sweden (Ministry of Foreign Affairs)

Mr. Staffan Sohlman

Finland (Ministry of Finance)

Ms. Heli Pallari

IBRD

Messrs. Gaud and Hattori

2. I explained the objectives of the Third Window and its features as currently conceived by Bank Management and the timetable, and informed the government representatives of the state of exploratory contacts made



with other governments. In answer to a question I mentioned the figure of \$10 million dollars for each Nordic countries a possible voluntary contribution.

3. The meeting was probably useful in giving the governments' representatives a clearer idea on the Third Window. It was quite obvious that the Nordic governments had given very little thought to the Third Window and were treating this meeting as little more than a staff briefing session. The representatives were rather junior officials. They came from the Foreign Ministries, except for Finland, although the Governors of the Bank are Finance Ministers. Mr. Olsen (Denmark) said at the beginning that the government representatives did not come with their governments' positions much less with a common position and their objective was mainly to listen. These facts as well as the general level of questions clearly indicated that the governments were far from being prepared for serious consideration of any voluntary participation in the Third Window.

4. Mr. Olsen probably expressed the consensus in saying that he thought the idea of a Third Window as such was a good one and that the intention of limiting Third Window lending to the poorer countries, as well as making them the beneficiaries of the direct and derived benefits of the system accorded perfectly with the aid philosophy of their governments.

5. There were no comments on the terms of lending and the explanation that the Bank would not find it difficult to lend an additional \$1 billion or to raise the funds by additional borrowing was accepted without comment.

6. Most of the interventions by the governments' representatives concerned the issue of their voluntary contributions to the interest subsidy fund.

.. . . .

(1) All claimed that the voluntary contribution would have to be approved by their legislatures a difficult and time consuming process; it was even more difficult now because of the fiscal constraints of the governments and the prospect of low if not zero growth of the economy. Especially in Denmark, Norway and Sweden, although the governments were committed to development aid, there was a decreasing enthusiasm for new aid schemes; their official development assistance was already close to the target of 0.7% of GNP, and thus no substantial increase in their development assistance could be expected; participation in new aid schemes would imply a cut in other aid participations.

(2) The suggested figure of \$10 million for each Nordic country, mentioned in response to a direct question, provoked strong reservations:

(i) that \$50 million for the Nordic countries out of \$200 - \$250 million was disproportionately high (Norway, Denmark);

(ii) that although it was presented as a voluntary contribution for a first year scheme, without commitment for a permanent scheme, these initial voluntary contributions tended to determine in fact the relative size of permanent contributions.

(3) While the representatives seemed encouraged by the information that contacts with OPEC countries had evoked positive support, they seemed discouraged by the almost definite prospect of non participation by U.S.



and the meager prospects for other OECD countries. Mr. Olsen remarked that it seemed that again the smaller countries were being asked to contribute while the big nations were not going to participate.

7. In view of the inadequate attention the Third Window is getting from the Nordic governments, and the difficult legislative climate in those countries, it seems necessary, if their voluntary contributions are to be secured in time, to open high level contacts with the governments preceded by your personal letters to the Governors, some time between the distribution of the Board paper and the third meeting of the Development Committee.

cc: Mr. I.P.M. Cargill

MHattori:ed  
IBRD

Third Window

Mr. Robert S. McNamara

March 3, 1975

William S. Gaud

(signed) William S. Gaud

Third Window: Meeting with Nordic  
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Sweden (Ministry of Foreign Affairs)

Mr. Staffan Sohlman

Finland (Ministry of Finance)

Ms. Heli Pallari

IBRD

Messrs. Gaud and Hattori

2. A word about the Nordic participants. Insofar as Denmark is concerned, Mr. Olsen is the No. 2 man with respect to development assistance. His superior, Mr. Ulrichsen, joined us for lunch although he was not at the principal meeting. The two Norwegian representatives, according to Mr. Sigurdsson, are both high level officials and we were fortunate they were there. I believe that Mr. Sohlman of Sweden is Klackenberg's No. 2. Neither Sigurdsson nor I know much about Ms. Pallari of Finland.

3. I explained the objectives of the Third Window and its features as currently conceived by Bank Management and the timetable, and informed the government representatives of the state of exploratory contacts made



with other governments. In answer to a question I mentioned the figure of \$10 million for each Nordic country as a possible voluntary contribution.

4. The meeting was useful in giving the governments' representatives a clearer idea on the Third Window. It appeared that the Nordic governments had given very little thought to the Third Window. Mr. Olsen (Denmark) said at the beginning (as we already knew from their telex to Mr. Sigurdsson) that the government representatives did not come with their governments' positions, much less with a common position, and their objective was mainly to listen. These facts as well as the general level of questions clearly indicated that the governments were far from being prepared for serious consideration of any voluntary participation in the Third Window.

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  - (i) that the amount expected from the Nordic countries out of \$200-\$250 million was disproportionately high (Norway, Denmark);
  - (ii) that although it was presented as a voluntary contribution for a first year scheme, without commitment for a permanent scheme, these initial voluntary contributions tended to determine in fact the relative size of permanent contributions.
- (c) While the representatives seemed encouraged by the information that contacts with OPEC countries had evoked positive support, they seemed discouraged by the almost definite prospect of non-participation by the U. S. and the doubtful prospects for the larger OECD countries. Mr. Olsen remarked that it seemed that again the smaller countries were being asked to contribute while the big nations were not going to participate.

8. We will clearly have to go at the Nordic countries again -- this time on a higher level and as a result of personal messages from you to the Governors. My present feeling is that this should be done soon after the April 1 Board meeting.

cc - Messrs. Knapp  
Shoalb  
Cargill  
Stern  
Kochman  
Hattori

MHattori:WSGaud:dbb



Third Window

Mr. Robert S. McNamara

March 3, 1975

William S. Gaud ((signed), William S. Gaud

Third Window -- Potential OECD Contributors

The status of our discussions with non-OPEC countries is as follows:

- The Netherlands. Burke Knapp and I are to see Pronk here in Washington on March 12, when I hope we will get a definite dollar commitment from him. I phoned his deputy, Van Gorkom, when I was in Europe last week, but learned nothing new.
- U.K. Nothing new since the memo of February 18, 1975 (copy attached) expressing a willingness to commit \$10-15 million in support of a subsidy fund of between \$200-300 million.
- Canada. Claude Isbister tells me the matter is still in the discussion stage. He continues hopeful of a favorable outcome and I am in close touch with him.
- Nordic Countries. Nothing definite. More work required. See my memo of March 3, 1975 (copy attached).
- Germany. During my absence in Europe Ernie Stern and Janssen had an encouraging talk with Herr Moltrécht from Bonn. Ernie is optimistic that the Germans will come through.
- Belgium. My effort to arrange a trip to Brussels was complicated by the fact that de Groote returned to Washington only a few hours before I left here. I did talk to him, he called Brussels about it, and then notified me in Copenhagen that there was no point in my going to Brussels. I will follow up and learn more.
- South Africa. Mr. Smit will return to Washington around March 15, at which time I will ask him what luck he had with his recommendation that his Government contribute to the interest subsidy fund.

I will let you know at once if anything develops during your trip.

Attachments - 2

cc - Messrs. Knapp, Shoalb, Cargill, Stern, Hattori

WSGaud:dbb

*Third Window*  
*yellow.*

## OFFICE MEMORANDUM

TO: Mr. M. P. Benjank, Regional  
Vice President, EMENA

FROM: A. Karasmanoglu, Chief Economist, EMENA *AK*

SUBJECT: Comments on "Establishment of a Third Window"

DATE: March 3, 1975

Introduction

1. The comments which follow are based not only on a reading of the draft paper, but also on background information available from Mr. Colaco who was involved in the preparation of one of its earlier drafts and in preceding discussions. So far, I have only received comments from Messrs. Pajmans, Dubey and Maiss. The following, therefore, may not reflect a complete picture of the views in the Region.

2. By the time of the next Annual Meeting the Management will have to have a fairly clear reading on three important elements of future resource availability for the Bank Group - IBRD capital increase, IDA-5, and the Third Window.

3. In this context, the draft paper should probably be viewed as a political document which is designed to establish and put into operation a Third Window by July 1, 1975. It, therefore, fuzzes over a number of important issues (the need for a Third Window, comparison of alternatives that could be considered, full implications on the value of the Bank's portfolio, etc.) which should be raised during internal discussions, but not necessarily be reflected in the draft paper.

Eligibility

4. There seem to be a multiplicity of criteria which are not necessarily consistent:

- a) Countries with 1972 per capita income of up to \$375 (para. 3-c), but MSA's above \$375 eligible (para. 14-a);
- b) Objectives of contributors (para. 14-a);
- c) Access to alternative sources of capital (para. 14-d).

The distinctly new element for the Bank Group is (b) above. In IDA, the ceilings for credits to India, Pakistan and Bangladesh were not parts of replenishment negotiations; were proposed by Management and agreed to by the ED's without vote. Here the option seems to be left open for contributors to attach conditions to their contributions. The Bank Group has resisted this in the past. In the IDB, the U.S. resources for the Social Progress Trust Fund gave that country a veto power on allocations; in its recent contribution to the IDB, Venezuela specifically noted that it was not asking for such a veto power.



March 3, 1975

Beneficiaries

5. The illustrative table on page 13 shows that the major beneficiaries of the Third Window are the MSA's. In terms of the effects of reallocations of total Bank Group resources (IBRD, IDA, and TW), the major beneficiaries are countries with per capita incomes of \$200-375 which get a 35% increase. (Please see Mr. Pajmans memo (attached) which raises a number of important operational points).

Additionality and Duration

6. The draft paper calls the Third Window an "interim response" (para. 13), keeps open the possibility of its being put on a "permanent footing" (para. 37) and hopes that it will not impinge on IDA availabilities (para. 10). This possible inconsistency is noted by Messrs. Dubey/Maiss in their attached memo. Implicit in the paper seem to be a number of views:

- a) Additional concessional resources are urgently required and should partly come through the Bank Group;
- b) IDA-5 is a question-mark; major increase in IDA resources probably will not be forthcoming;
- c) Developing countries can absorb additional resources at 1% interest credit at present global inflation rates (para. 10 makes some questionable arguments about concessionality, totally ignoring repayment capacities of recipient countries);
- d) Early establishment of Third Window would provide some additional resources from countries such as Kuwait, and improvement prospects for U.S. contribution to IDA-5 by showing OPEC positive response.

Program Loans

7. The paper provides for program loans (para. 12) but indicates that TW will not provide "emergency balance of payments support". This wording is presumably to assuage the sensitivities of the Fund and U.S.

Creditworthiness

8. Paras. 14-c and 33-37 as formulated raise a number of questions which are basically raised in paragraph 7 of the Dubey/Maiss memo.

Staffing

9. Given its political nature, the paper in page 17 downplays the budgetary implications of additional lending. Note, however, that FY-75

March 3, 1975

Lending is expected to be \$1 billion above programmed levels (see the Paijmans and Dubey/Maiss memos).

Financing

10. The paper in paras. 24-26 provides what could be regarded as a shopping list of financing options to attract voluntary contributions from the OPEC countries and such OECD countries as the Netherlands.

cc: Messrs. Bart, Paijmans, Wapenhans, Finzi



Third Window

Mr. I. P. M. Cargill

March 3, 1975

Masaya Hattori

U R G E N T

Comments on the Paper "Establishment of the Third Window"  
(To be Reviewed March 4, 1400 hours in the President's Office)

1. I have serious reservations about paragraph 26 (page 19) where it is proposed that low interest Bank loans be repurchased at par by the Central Bank of other institution of borrowing country and the difference between the par value of the loan and its discounted value be transferred by the Bank to the interest subsidization account. This procedure will imply the Bank will take a capital loss on its assets or make an expenditure to the interest subsidization fund. As a matter of financial mathematics, the operation is feasible; whether it is allowable on accounting grounds is quite another question. If the repurchasing country is to get recognition of its financial sacrifice, the procedure would be for the Bank to negotiate the sale of its loan at a loss combined with the engagement that the repurchasing agency would pay to the interest subsidization fund, the difference between the par value and the sales value of the loan. It is against all established rules of financial accounting to incur capital losses conditional to the return of the profits by the purchaser to the seller for specific uses. Capital losses should be incurred only in accordance to market condition.

If the repurchaser were to pay the full face value of the loan there will be no basis for the Bank to transfer the difference between the discounted value and the face value to the interest subsidization account. There has been no income in the accounting sense. The book value of the loan has been replaced by cash in exactly the same amount, therefore there is no new income to be transferred to the interest subsidization account, hence it must come out of administrative expenses or disposal of net income. It is hard to see how the Bank could make such payments.

2. With respect to the statement of paragraph 29 that "it has been assumed that a significant portion of the initial voluntary contributions will come from the OPEC countries" - it might be advisable to prepare a clarification that "a significant portion" would mean up to 50%. Mr. Kochman's mission as well as Mr. Witteven's report to the Fund Board indicate that the OPEC countries are not willing to let the industrialized countries share in new aid schemes drop below 50%.

cc: Messrs. Gabriel, Nurick and Gaud

MHattori:ed  
IBRD

Third Window

Mr. Bart, Mr. Paijmans, Mr. Wapenhans,  
Mr. Karaosmanoglu and Mr. Finzi  
David Richardson

February 27, 1975

Policy Paper on Establishment of Third Window

Mr. Vibert's office has informed us that a draft policy paper on the Establishment of a Third Window for Lending is expected to be distributed some time tomorrow Friday, February 28, 1975, with a meeting of the Policy Review Committee scheduled to discuss the paper in Mr. McNamara's office on Tuesday, March 4, 1975 at 2 p.m.

Please watch for this paper, and try to send your comments to Mr. Karaosmanoglu, who will be coordinating the EMENA regional comments, by noon on Monday March 3, 1975.

DR:12



## OFFICE MEMORANDUM

*Third Window*

TO: Files

DATE: February 27, 1975

FROM: Richard A. Cambridge, *RA* Personal Assistant to the  
Senior Vice PresidentSUBJECT: Operational Vice Presidents' Meeting, February 24, 1975

Present: Messrs. Knapp (Chairman), Alter, Bell, Benjenk, Chaufournier, Husain, van der Meer, Goodman, Gue and Cambridge.

Third Window Lending

1. The Vice Presidents briefly discussed selected aspects of Third Window Lending. In particular, the discussion centered on the concept of additionality, terms of third window loans, voting power, country eligibility, and finally the general criteria for Third Window Lending.
2. Some Vice Presidents pointed out that it was still not clear whether third window funds would be additional or have a substitution effect on IDA or Bank funds. Mr. Knapp said that the concept was that Third Window Lending should be additional to regular Bank and IDA lending. As far as terms of third window loans were concerned Mr. Knapp said that while several tentative decisions had been made, work still remained to be done in this area.
3. In referring to criteria for Third Window Lending, Mr. Knapp pointed out that similar criteria utilized for IDA would be used, i.e., poverty, performance, lack of creditworthiness for Bank lending, etc.
4. Mr. Knapp concluded the discussion by asking the Vice Presidents to review the draft paper which would be available shortly and to discuss it with him more fully at the next Operational Vice Presidents' meeting on Monday, March 3 at 3:00 p.m.

Cleared with Mr. Knapp

cc: Participants

Messrs. Chadenet, Adler, Gabriel and Mrs. Boskey

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

DECLASSIFIED

JUN 05 2025

WBG ARCHIVES

PRC/M/75-2 Rev.

February 26, 1975

CONFIRMATION OF MEETING

ESTABLISHMENT OF THIRD WINDOW

Attached is the paper, 'Establishment of Third Window,' prepared by the Programming & Budgeting Department and the Policy Planning & Program Review Department. It is to be discussed at a Policy Review Committee meeting on Tuesday, March 4, at 2 p.m. in the President's office.

Frank Vibert  
Secretary  
Policy Review Committee

DISTRIBUTION

Attendance

Messrs. McNamara  
Knapp  
Baum  
Broches/Nurick  
Cargill  
Chenery  
Bell  
Benjenk  
Chaufournier

Husain  
Krieger  
Weiner  
Chadenet  
Gaud  
Adler, J.H.  
Haq  
Stern  
van der Tak

Copies for Information

Vice President - IFC  
Department Directors - IBRD



2/24/75

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: ESTABLISHMENT OF A THIRD WINDOW

Section I: Introduction and Recommendations

1. The "Third Window" refers to a new lending facility which would extend loans to the developing countries on terms intermediate between those now charged by the Bank and IDA. The possible establishment of a Third Window was briefly discussed in the recent IBRD Financial Policies Paper (Review of IBRD/IDA Program and Financial Policies; R-74/256 dated December 11, 1974). It came up again in the meeting of the Development Committee on January 17, 1975. Several of the OPEC countries and the Netherlands expressed strong interest in the Third Window. As a result, the concept was widely endorsed by the other Ministers present at the Development Committee meeting and was referred to the Executive Board of the Bank for further study and preparation of a specific proposal.

2. Before preparing a firm proposal for the Board's review, the management intends to hold a series of meetings with potential contributors. The purpose of the present memorandum is to inform the Board of the basis upon which the management would conduct these meetings and to give members of the Board an early

opportunity to make known their views on particular issues so that these may be taken into account both in the proposed meetings and in the subsequent formulation of a definite proposal.

3. The principal features of the Third Window proposal to which reactions of potential contributors will be sought are the following:

(a) Scale - Third Window IBRD commitments of approximately \$1 billion in FY76 are envisaged. These commitments would be in addition to presently planned IBRD and IDA lending programs.

(b) Duration - The proposal is for an interim scheme of just one year. For this interim period, contributions to an interest subsidy account would be sought on a strictly voluntary basis and not as part of a negotiated burden-sharing agreement.

(c) Beneficiary Countries - Countries with 1972 per capita income of up to \$375 which meet minimum creditworthiness and performance standards would be eligible for Third Window loans. Reallocation of both IDA credits and standard IBRD loans would benefit those countries which could not qualify for direct Third Window loans.



- (d) Terms - Third Window loans would have a standard interest rate of 4% below the IBRD rate. For project lending, which is expected to account for the bulk of Third Window commitments, maturities would approximate 25 years with a 7-year grace period. These terms are based on country criteria. If the terms appropriate on project grounds are different, a two-step loan would be used.
- (e) Interest Subsidy Arrangements - Contributions of approximately \$225 million would be required to finance the 4% interest subsidy over the life of the loans. It is assumed that contributions would be made available in investable form.
- (f) Borrowing Requirements - The funds needed to finance disbursements would be borrowed by the Bank as an addition to its regular borrowing program. Between \$200 and \$300 million extra would need to be borrowed in each of the years FY77 through FY79.
- (g) Implications for the Bank's Reserve Target - In principle, additional equity of perhaps \$250 million should be provided to protect the Bank against the risks of Third Window loans. This requirement would be sufficiently small both in relation to presently projected levels of equity and to the

margin of error in our reserve target as to make corrective action unnecessary for a one-year proposal.

- (h) Management Provisions - Each Third Window loan would be approved by the Bank's Executive Directors. The allocation of interest subsidy funds would be made by the Bank's management in accordance with the wishes of the contributing countries as established through consultations. During the first year and pending the formal resolution of the many questions regarding organization and operation which would have to be settled before a Third Window can be established on a permanent basis, administrative arrangements would be kept on the simplest possible basis.

## Section 2: The Need for a Third Window

### A. The Economic Background

#### Capital Needs of the Developing Countries

4. The outlook for developing countries in the second half of this decade was examined in the staff study "Prospects for the Developing Countries" (SecM74-489 dated July 1974). Analysis at that time showed the outlook for the poorest developing countries, including the UN-designated "least developed" and many of those "most seriously affected" by the current situation, to be bleak for the rest of the decade. There appeared little prospect of an increase in the per capita incomes of the poorest countries and restoration of development momentum called for an increase in capital flows on concessionary terms much in excess of expected disbursements from the traditional



donors (members of OECD/DAC) and from the new sources of capital among the oil-exporting countries. It was estimated that the flow of official development assistance (ODA) and other concessionary lending would have to increase by over \$2 billion a year from \$12 billion in 1973 to some \$30 billion in 1980 if the poorest countries were to resume a minimum acceptable rate of advance.

5. At the same time, prospects for some of the "middle income" developing countries were also clouded. A number of them had substantially larger borrowing requirements as a result of import prices rising faster than the prices of their exports, at the same time as market prospects for a continued rapid advance in the volume of their exports seemed increasingly doubtful. To what extent these countries could meet their borrowing requirements from private sources in the face of the various pressures on their debt carrying capacity was also uncertain. For many of them, the task of debt management and borrowing in sufficient volume could be substantially assisted by additional flows from official and multilateral sources.

6. Recent re-examination of the situation faced by these two groups of countries suggests that prospects through 1980 may be worse than assumed in our earlier analysis -- implying even greater capital needs. A joint IMF/IBRD staff study of the prospects for the most seriously affected countries in 1975 indicated a financing requirement of more than \$2 billion in 1975,<sup>1/</sup> over and above assistance flows currently in sight. A number of factors suggest that the longer term prospects for the other poor countries and for

<sup>1/</sup> DC-74-6 dated December 23, 1974.

the middle income developing countries have also deteriorated. Efforts to combat domestic inflation in the OECD countries are proving to be less successful or are at least taking longer to achieve results than originally foreseen. At the same time, and associated with the need to restrain inflation, real growth has been more seriously interrupted than earlier envisaged. Since developments in the OECD area do much to determine the economic environment -- particularly the export prospects -- for developing countries, the outlook for the developing countries themselves is now more difficult. For developing countries as a whole the terms of trade are now projected to deteriorate more than had earlier been foreseen, suggesting further constraint on the rate of economic advance unless there is a compensating increase in the flow of capital on appropriate terms.<sup>1/</sup>

#### Sources of Capital

7. The current indications are that flows of capital, particularly of concessionary capital, will fall far short of what is required. Members of the Development Committee have announced their intent not to decrease assistance efforts but rather to endeavor "to improve the real volume and the quality of official development assistance."<sup>2/</sup> Nevertheless, unless there are major new initiatives by the largest industrialized donors, the prospects are for a relatively modest annual increase in aid disbursements from DAC members

<sup>1/</sup> The revised prospects for the developing countries through the end of the decade will be discussed in detail in "Capital Requirements of Developing Countries" due to be distributed to the Executive Directors approximately April 1, 1975.

<sup>2/</sup> Development Committee, Press Communique dated January 17, 1975.



and a further fall in assistance expressed as a proportion of GNP. From a level of 0.30% of GNP in 1973, ODA is now expected to be around [ 0.20% ] of GNP in 1980.

8. The new donor countries, those net oil exporting countries with large financial surpluses in excess of their immediate capacity to use them for sound domestic development purposes, have made major commitments of assistance in the short period since the surpluses have begun to materialize. Disbursements, however, will take time to build up. The flow of assistance with a significant concessionary element is estimated to have averaged around \$1.5 billion per year in 1973-74 and is expected to increase significantly in the next few years on the basis of rapidly rising new commitments in 1974.

9. However, taking into account both the initiatives of the new sources of capital and the programs of the traditional donors, it seems clear that flows of capital from both sources will be inadequate to support reasonable rates of growth in the developing countries, particularly among the poorest. The overall shortage of assistance is further aggravated by the fact that the distribution of assistance does not always correspond closely to the development needs or capacities of the recipients.

10. Against this background, the focus of assistance efforts needs to be placed on the volume of resources provided. While it would be desirable to have a substantial increase in grant or IDA-type assistance, if that cannot realistically be attained in the short-run then it is vital to explore alternative means of substantially increasing

flows on intermediate terms (between market terms and grant-like terms). In inflationary circumstances the concessionary element of the intermediate terms will in fact be very high. (For example, intermediate terms involving lending at a rate of interest of 3% to 5% and with maturities of 20-30 years would carry a grant element of around 45-50%; this would rise to around 70% if the effect of current and prospective inflation is taken into account.) In the context of Bank Group operations, lending at intermediate terms would imply terms between those of IBRD and IDA -- hence the use of the term "Third Window" as briefly discussed in the IBRD Financial Policies Paper (paras. 97-105).

#### Relationship of a Third Window to Other Aid Programs

11. The current situation is being met through a variety of emergency mechanisms notably through the UN Emergency Operation and the IMF Oil Facility. To provide still further balance of payments support on concessionary terms, the Development Committee requested the Executive Boards of the Fund and the Bank to study proposals for a special trust fund.<sup>1/</sup>

12. The Third Window is not envisaged as a means providing emergency balance of payments support. However, unless developing countries have early assurances of additional assistance over and above what is now in sight, development programs will necessarily be cut back further and high priority projects will inevitably have to be postponed or abandoned. To provide such assurances, additional commitment

<sup>1/</sup> "Prospects for the Special Fund" ( ) distributed to the Executive Directors of the Bank and Fund on March 10, 1975.



authority is urgently needed in addition to the disbursement requirements in 1975. Since programs in certain high priority sectors may require an immediate transfer of resources to avoid being disrupted, and since the adequacy of existing and prospective arrangements for providing balance of payments support cannot be completely judged at the present time, it is proposed to leave open the possibility that some part of Third Window resources might be made available in the form of quick disbursing assistance. This eventuality, however, would be contingent on the full use by recipient countries of other sources of quick disbursing assistance, notably such resources as might become available under the Trust Fund proposals.

13. Eventually, the additional assistance required by the developing countries to sustain minimum acceptable levels of growth will have to be funded on a more permanent basis and arrangements entered into that provide additional concessionary resources on a long-term basis. For the poorest countries, long-term development can only be financed on a sound basis through IDA and other highly concessionary resources. For this reason contributions to IDA should continue to receive the highest priority for Bank members. The Third Window concept has been advanced as an interim response, and to provide time to formulate adequate longer term arrangements.

Pragn 10-  
Egypt

B. The Beneficiaries of a Third Window

Eligibility Criteria

14. A determination of which countries are to benefit from the introduction of a Third Window should rest on a country-by-country analysis similar to the assessment carried out in arriving at decisions on IDA allocation. Specific decisions must naturally take into account the objectives of the contributors to a Third Window interest subsidy fund and be made in the light of total resources available for subsidization. Nevertheless, certain general criteria which would seem relevant are as follows:

- (a) a poverty criterion - since Third Window resources will be limited, and finance on highly concessionary terms is generally scarce, it seems reasonable that preference in borrowing should be given to the poorer developing countries. There would seem to be little reason to question the eligibility on poverty grounds of countries with per capita income below \$375 in 1972 (the current IDA limit). As in the case of IDA credits, a per capita income level criterion would not preclude other countries at higher levels from receiving assistance nor would it guarantee assistance to those below. In particular, any MSA countries with per capita incomes above \$375 would be considered as



special cases. In assessing eligibility below the \$375 limit, other criteria would also have to be taken into account.

- (b) performance - as in the case of both IBRD and IDA lending, Third Window loans would only be extended to those countries regarded as making reasonable development efforts in relation to the resource base and development potential of the country.
- (c) ability to repay - although as mentioned, Third Window resources would contain a substantial concessionary element, potential recipient countries must be judged able to repay the loans on intermediate terms, taking account of the deterioration in their terms of trade and other factors affecting their long-run capacity to repay loans in foreign exchange.
- (d) access to alternative sources of capital - given the limited resources likely to be available, it would also seem relevant to take into account the access of a country to alternative sources of capital. Thus even if a country is eligible for Third Window loans on poverty and performance grounds and in terms of its ability to repay, it would not necessarily receive

Third Window loans if it has access to alternative sources of capital on terms which are reasonable in relation to its development prospects.

Impact on Bank Group Assistance

15. While the \$1 billion in Third Window commitments would be additional to the proposed total IBRD/IDA program, it would not always be fully additional at the country level. In certain cases, Third Window lending in a country would substitute either for IDA credits or standard Bank loans. To illustrate the impact on Bank Group assistance in FY76, the table below shows the effect of one plausible allocation of the \$1 billion in additional commitments. The poorest and most seriously affected countries would receive about two-thirds of direct Third Window lending under this allocation. The remaining one-third of the loans would be extended to countries with per capita incomes in the \$200 - \$375 range which are not currently included in the list of MSA countries, but which nevertheless require additional assistance containing some concessional element.

16. The indirect effects of Third Window lending would also be important. Countries with incomes between \$200 and \$375 per capita which can afford to do so would have their current IDA programs replaced with Third Window lending on a considerably larger scale. The grant element of the assistance received by these countries would be preserved, and they would at the same time obtain a larger inflow



of badly needed capital. The IDA resources released from these countries would be reallocated to those poorer developing countries which would not qualify for direct Third Window loans on creditworthiness grounds. In a few cases, Third Window loans to countries with per capita incomes below \$200 have also been used to substitute for previously planned IBRD loans where creditworthiness considerations constitute a strong argument against an increase in total Bank Group exposure. Countries with per capita incomes above \$200 would benefit from the re-allocation of the IBRD funds released in this way. Taking into account both the direct and indirect effects of Third Window lending, the poorest countries would receive a net increase in total Bank Group assistance of approximately 19% along with an appreciable softening of the average terms of that assistance. Similarly, the MSA countries as a group receive a net increase of more than 23%.

Pattern of Bank Group Assistance in FY76 with \$1 billion  
in Third Window Loans

Income Level of Countries:	Share of Income Group in Total Lending					Net Increase in Total Assistance a/
	I B R D		I D A		Third Window	
	Without 3rd Window	With 3rd Window	Without 3rd Window	With 3rd Window		
Below \$200 p.c. (\$ million)	\$ 821	\$ 632	\$1477	\$1570	\$ 541	\$ 445
(% of total)	18.4%	14.2%	90.9%	96.6%	54.1%	19.4%
\$200 - \$375 (\$ million)	\$1293	\$1132	\$ 148	\$ 55	\$ 459	\$ 505
(% of total)	29.1%	32.2%	9.1%	3.4%	45.9%	35.0%
Above \$375 (\$ million)	\$2336	\$2386	0	0	0	\$ 50
(% of total)	52.5%	53.6%	0%	0%	0%	2.1%
Total All Levels (\$ million)	\$4450	\$4450	\$1625	\$1625	\$1000	\$1000
(% of total)	100.0%	100.0%	100.0%	100.0%	100.0%	16.5%
Memo Items:						
MSAs (\$ million)	\$ 517	\$ 373	\$1020	\$ 987	\$ 540	\$ 363
(% of total)	11.6%	8.4%	62.8%	60.7%	54.0%	23.6%
MSAs & Poorest (\$ million)	\$ 971	\$ 801	\$1533	\$1625	\$ 674	\$ 596
(% of total)	21.8%	18.0%	94.3%	100.0%	67.4%	23.8%

a/ Percentages refer to rate of increase in total assistance (net) and not to share of country groups in that net increase.

17. The prospect of enlarged Bank Group assistance raises the question of whether the increase in lending can be accommodated within the present program of operations. It is believed that by accelerating work on the FY76 and FY77 Operations Program, additional lending commitments of \$1 billion in high priority development projects can be brought to the Board in FY76. The budgetary implications of such action are not likely to be great and would be examined in connection with the review of the FY76 budget.



### Section 3: The Scale of Initial Operations and Financing Requirements

#### Volume of Commitments

18. Two main considerations underlie the recommendation that \$1 billion in Third Window commitments be adopted as a target for the initial year. First of all, while additional lending of this magnitude would clearly make a material contribution to the financing requirements of the low and middle income developing countries, it is sufficiently small in relation to their reasonable requirements for assistance to avoid any suggestion that the Third Window could overlap or duplicate other aid initiatives which have been proposed. Secondly, account has been taken in a very preliminary fashion of the volume of concessionary resources which might be obtained as contributions to an interest subsidy fund.

19. The scale of operations can of course be adjusted to fit the amount of contributions actually obtained. However, as the volume of commitments is reduced it becomes progressively more difficult to develop rational and administratively practical allocation proposals, particularly since we are dealing with a one-year scheme. For this reason, it would not seem desirable to initiate a Third Window operation unless contributions to the interest subsidization fund were to permit commitments of at least \$500 million in the initial year. What this volume of commitments implies in terms of concessionary contributions depends on the particulars of the financing arrangements envisaged for the Third Window.

Financing Arrangements

19. There are three distinct financial requirements for the operation of a Third Window:

- (1) contributions to an interest subsidy fund will be required, either in the form of grants, low interest loans or other financial transactions of equivalent value;
- (2) the capital necessary to finance disbursements under Third Window loans will need to be borrowed;
- (3) the security of creditors who supply the capital will have to be protected against the risks of Third Window loans.

Each of these requirements may be considered separately.

A. Interest Subsidy Requirements

20. The amount of concessionary resources needed to finance the interest subsidization of Third Window loans will obviously depend upon the volume of lending to be undertaken and the terms offered on individual loans. If lending of \$1 billion at an interest rate of 4% below the IBRD lending rate is to be achieved, an interest subsidization fund of about \$200-\$250 million will be required. The exact amount needed can only be determined once agreement is reached on the precise terms of the loans -- including not only the interest rate, but also the grace period and final maturity. It will also be important to know the approximate rate at which loans are likely to be disbursed and the rate of return to be earned on the resources contributed to the interest subsidy fund.



21. In view of the need to provide substantial additional lending to the poorest and most seriously affected countries, it would seem desirable to keep the interest rate as low as possible, taking into account the limited capacity of the countries to take on additional debt-servicing obligations. For illustrative purposes, therefore, an interest subsidy of 4 percentage points has been adopted. In addition, with relatively little additional cost to the subsidy fund, it is possible to extend the grace period on loans from the 3 or 4 years typical of IBRD loans to, say, seven years. With this interest rate and grace period, a final maturity of 25 years is consistent with an interest subsidy fund of \$225 million. While it would be attractive to offer Third Window loans with somewhat longer maturities, say 30 or 35 years, in the present circumstances it has been thought preferable to keep the cost of the subsidy fund low in relation to the volume of commitments which is to be subsidized, since this "leverage" is one of the principal attractions of a Third Window operation.

22. As mentioned earlier, (para. 12), the possibility of using Third Window loans to provide quick disbursing assistance may be left open at this stage. The additional cost to the subsidy fund would be considerable if the same terms were adopted. This is so because amounts of loans disbursed and outstanding mount quickly, so that interest subsidy payments are required earlier and in larger amounts than for normal project loans. Hence, if a Third Window loan is to be disbursed very quickly, compensating changes in other aspects

of the loan might be required if the benefits of Third Window loans are to be spread equally among recipients of project and program loans. For a loan which is to be disbursed equally over two years, a 4% interest rate subsidy, a grace period of 2 years and a final maturity of about [14] years would yield the same concessionality as the proposed terms for project loans which are disbursed more slowly.

23. The terms proposed for Third Window loans may not always be appropriate on project grounds. In such cases, a two-step lending procedure could be used. The Third Window terms would apply to a loan extended to the government and the government would re-lend the funds to the project-executing entity at whatever terms are appropriate on project grounds.

#### Form of Contributions

24. Contributions to an interest subsidy fund could take any one of a number of possible forms. The simplest would be an outright grant, paid in full during the first year. The figure of \$225 million cited as the target size of the interest subsidy fund refers to payments received in this form. If contributions were to be paid in over a number of years, their value to the interest subsidy fund would be somewhat less by virtue of the fact that no investment income would have been earned on the contributions in the meantime. Some contributors might find it convenient, for example, to support the interest subsidy fund by designating a portion of the interest due them on IBRD



bonds to be paid on their behalf to the interest subsidy fund. The equivalent of a \$20 million grant contribution could be accomplished, for example, by contributing two percentage points of interest on a \$150 million 10-year bond.

25. Another way of supporting the subsidy fund would be for a contributor to make a new loan to the Bank at less than market rates of interest. The grant-equivalent value of such a loan to the interest subsidy fund would be calculated in the same way as contributions of interest due on an existing IBRD bond. But a new loan at concessional rates, if it were additional to what the contributing country would normally invest in IBRD obligations, would have the other important advantage of providing a part of the capital funds needed to cover disbursements under Third Window loans.

26. Consideration might also be given to still another form of contribution. Several OECD and OPEC countries have IBRD loans outstanding which carry interest rates well below the present level of 8-1/2%. Repurchase at par of these loans by the Central Bank or other institution in the borrowing country would involve a financial sacrifice. Without weakening its own financial position, the Bank could acknowledge this financial sacrifice by transferring to the interest subsidization account the difference between the par value of the loan and its discounted value.<sup>1/</sup> This difference would be

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<sup>1/</sup> The discounted value in this connection would be the price which would give the purchaser a yield to maturity of the Bank's average cost of borrowing (now 8.25%).

considered as a contribution by the repurchasing country. As in the case of new loans to the Bank at less than market interest rates, this form of contribution would help cover the capital requirements for funding disbursements under Third Window loans.

Source of Contributions

27. The Third Window was discussed by the Development Committee at its meeting on January 17th. Mr. Al-Hamad, speaking on behalf of a group of countries which included several major oil-exporters, stated that some of the countries he represented had agreed to make a meaningful contribution to the interest subsidy needs of a Third Window -- such contributions to be contingent upon contributions from some OECD countries. As a result of this strong expression of interest by several of the OPEC countries, the Third Window proposal was widely endorsed by the other Ministers present and referred to the Executive Board of the Bank for study and for preparation of a specific proposal.

28. During the Board discussion of the IBRD Financial Policies Paper the question of how contributions might be obtained was briefly discussed. It seemed to be generally acknowledge that a negotiated burden-sharing agreement would require many months, if not years, to conclude. In order to get the Third Window off to a more rapid start, the Netherlands had indicated that it would be willing to make an advance contribution on a voluntary basis before a burden-sharing agreement has been negotiated.



29. The present proposal to initiate operations of a Third Window for a one year period can be successful only if this principle of voluntary contributions is widely accepted. Because of the initiative taken by some of the OPEC countries in relation to the Third Window, it has been assumed that a significant portion of the initial voluntary contributions will come from the OPEC countries. It is important, however, that the proportion of the initial contributions coming from any single country or group of countries be clearly dissociated from the shares which may later emerge in a negotiated burden-sharing agreement. It must also be recognized that the "burden" of supporting a Third Window is not limited to the contributions required for the interest subsidy fund. The borrowing requirements and the bearing of risk with respect to Third Window loans must also be taken into account.

B. Borrowing Requirements

30. The funds needed to finance disbursements under Third Window loans will have to be borrowed. The present proposal assumes that this borrowing would be done by the Bank as an addition to its regular borrowing program. The alternative of arranging the borrowing through IDA or through a separate institution established specifically for the purpose of making Third Window loans, while perhaps technically feasible, would raise a number of issues which could delay implementation of the scheme and would in all probability raise substantially the cost of funds borrowed.

31. The table below shows the effect of the proposed one year program on the Bank's projected gross borrowings. It will not be necessary for the Bank to borrow any additional sums in FY76 because the presently projected holdings of liquid assets are more than sufficient to finance first year disbursements under Third Window loans and still remain above 40% of the borrowing requirements in the next three years, as required under the Bank's present liquidity policy.

<u>Borrowing Requirements of Third Window Proposal</u> <sup>/a</sup> (\$ million)				
	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
<u>Gross Borrowings</u>				
Present Program	3200	3550	3900	4800
For Third Window	<u>-</u>	<u>+200</u>	<u>+300</u>	<u>+220</u>
Total	<u>3200</u>	<u>3750</u>	<u>4200</u>	<u>—</u>
<u>Liquid Holding (End Year)</u>				
Present Program	5698	5900	6320	6878
With Third Window	5648	5833	6330	6932
- As % of next three years' borrowing requirements	48.3	42.8	40.0	40.0

<sup>/a</sup> Assumes disbursements as in average IBRD projects for 90% of Third Window commitments and quick-disbursing program loans for the remaining 10% of commitments.

32. The additional borrowings would of course add to the Bank's funded debt, bringing the projected level to \$19.6 billion at the end of FY78 and \$23.3 billion at the end of FY79. These increases, which amount to about 3% over what was previously projected, are not significant in themselves. But they do highlight the issue of risk as



perceived by the Bank's creditors and raise the question of what steps, if any, need to be taken to insure that the Bank can prudently incur the added risks of Third Window loans.

C. Implications for IBRD Reserve Target

33. The recent paper on IBRD Financial Policies (R74-256) examined at some length the adequacy of the Bank's capital. It argued that the Bank's total capital -- including both paid-in and subscribed capital as well as retained earnings -- would be adequate for several years to come in assuring creditors that the Bank's assets will always be sufficient to meet its obligations to creditors. Establishment of a Third Window to operate at the level of \$1 billion in a year does not materially affect the adequacy of the Bank's capital when judged from this point of view. The present proposal, which encompasses a single year only, would alter the timing of the effect of Article III, Section 3 of the Bank's charter by less than 90 days.<sup>1/</sup> Even if the Third Window were subsequently to be established on a permanent basis, and additional lending at the rate of \$1 billion per year were to continue indefinitely, the date when the statutory limit would be reached would be advanced by only about one year.

34. The Bank's capital must also be adequate to assure shareholders that the possibility of a call on the unpaid portion of their capital subscriptions remains remote. The critical factor in this connection is the relationship between the volume of loans outstanding

<sup>1/</sup> Under Article III, Section 3 of the Articles of Agreement (entitled "Limitations on Guarantees and Borrowings of the Bank"), "the total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank."

and disbursed and the Bank's "equity."<sup>1/</sup> The IBRD Financial Policies Paper tentatively established a figure of 15% as a minimum ratio on which to base the Bank's planned accumulation of paid-in capital and retained earnings. Since about 80% of the \$1 billion lending envisaged for FY76 under the Third Window proposal would still be outstanding in the mid-1980's, simple application of this 15% target would imply the need to add about \$120 million to equity over the next decade.

35. It is far from clear, however, that the 15% target, which was derived as an average for the whole loan portfolio, should apply to the \$1 billion of Third Window lending. While the allocation criteria proposed (see para. 14 above) would prevent Third Window loans from going to countries which fail to meet minimum creditworthiness standards, the bulk of the \$1 billion would go to the poorest and most seriously affected developing countries, many of whom face difficult development prospects over the next several years. This consideration would favor a higher figure for capital and/or reserve accumulation.

36. There are, however, countervailing considerations. The most important of these is the fact that Third Window loans have been used to substitute for previously planned IBRD lending in a few of the countries with per capita income below \$200 where additional exposure would otherwise require a very large proportionate increase

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<sup>1/</sup> As in the IBRD Financial Policies Paper (para. 34), "equity" is here defined as usable paid-in capital plus retained earnings plus the Special Reserve.



in IBRD equity. Although this substitution affects only a minor part of total Third Window lending, it results in a major reduction in the associated requirement for increases in Bank equity. Another factor which should not be forgotten is that, even where Third Window loans increase Bank exposure, they also affect the development prospects of the borrowers. A fundamental reason for establishing a Third Window at this time is that additional loan funds are needed to prevent postponement or cancellation of projects which may be expected to have very high developmental returns. Since these investments will be financed on intermediate terms, the net impact on borrowers' economic and financial position should be distinctly favorable. Thus the risks faced by the Bank on amounts which would be outstanding in these countries even without a Third Window may be lessened.

37. The net effect of these various considerations will vary from country to country. On balance, an equity backing of approximately \$250 million would appear to be a reasonable figure for the target group of countries envisaged in the present proposal. This amount of additional equity is so small in relation to presently projected levels of equity (over \$7 billion in FY85) and in relation to the uncertainty surrounding the basic Bank's reserve target that no specific action is required for the first year of the scheme. But should the Third Window subsequently be established on a permanent footing, it will then be necessary to consider an explicit mechanism for generating additional equity on a regular basis.

Section 4: Organization and Procedures

Authorization for a Third Window

38. Since the capital needed to finance disbursements under Third Window loans will be borrowed by the Bank and since repayment of that capital will be covered by the Bank's guarantee, each Third Window loan will have to be approved by the Executive Directors as in a standard IBRD loan. Basic policies concerning, for example, procurement would continue to apply.
39. The interest subsidization fund itself would be established on the basis of a master agreement to which contributing countries would subscribe. The master agreement would detail the character and timing of the contributions to be made, the investment policy of the fund, the method of drawing on it, and the administrative and reporting arrangements which would prevail. In addition, the master agreement would indicate in whatever detail may be required the eligibility criteria for interest subsidization payments. Each of these aspects of the master agreement will be discussed with potential contributors in the series of meetings proposed to take place over the next few weeks. The proposals of the Bank's management on these issues should therefore be regarded as the basis for discussion rather than as a firm position.



Payment of Contributions

40. Payment would be made in the form of usable currencies which would be freely investable by the interest subsidization fund. Initial payments would be due within 90 days of the effectiveness of the new facility.

Investment Policy

41. The resources contributed to the interest subsidy fund would form a separate account and would not appear in the financial statements of the IBRD. Since the obligations of the interest subsidy fund would take the form of small payments due semi-annually over a 25 year period, it would seem advisable for the fund to purchase obligations of the requisite maturities at the outset of the scheme. One approach would be for the Bank itself to sell the interest subsidy fund a serial bond, carrying an interest rate equal to the Bank's projected average cost of borrowing in FY76<sup>1/</sup>. The maturity schedule of the serial bonds would be designed to match the time profile of the obligations of the interest subsidy fund. The same principle could be applied through purchases of securities in the private capital markets. In either event, the uncertainty concerning future interest rate movements and hence the rate of return on investments of the interest subsidy fund would be removed.

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<sup>1/</sup> It is this possibility which is the basis for assuming that contributions to the interest subsidy fund will earn an average return of 8.25%, equivalent to the Bank's currently projected average cost of borrowing in FY76.

#### Exchange Rate Changes

42. Since the assets of the interest subsidization fund will eventually be used in their entirety to meet interest subsidy payments, the question of maintaining the value of contributions in terms of gold or some other standard does not arise. Nevertheless, an exchange risk problem may arise if Third Window loans are disbursed in different currencies than are held as assets in the interest subsidization fund. This is so because the interest due on Third Window loans (4.5% from the borrower and 4% on the borrower's behalf from the interest subsidy fund) is determined as a percentage of the currencies actually disbursed. The exchange risk which could arise in this way is likely to be small in relation to the total interest subsidy received and it is proposed that it be borne by the borrower. The risk may be minimized by converting the contributions of the interest subsidy fund into a mix of currencies which closely approximates the currencies likely to be disbursed under Third Window loans.

#### Method of Drawing

43. The loan agreement for a Third Window operation would contain a covenant authorizing the Bank to draw on the interest subsidy fund on behalf of the borrower to meet the specified share of interest payments. To provide for variations in the rate of disbursement a ceiling would be placed on the total interest subsidy payments (reduced to their present value) which could be made for the particular loan. Once this ceiling is reached, all further interest obligations would have to be met by the borrower.



Administration and Reporting

44. The Bank would act as administrator of the fund on behalf of the contributing countries. As administrator, the Bank would open and operate such accounts as would be necessary to carry out the purposes of the fund. The Bank would consult informally with the contributing countries on a regular basis and would prepare periodic reports on the financial condition and operations of the fund. In the initial year of operations, there would be no new approval procedure for individual loans or formal voting rights, though it is recognized that these and other issues will have to be resolved before a permanent facility can be established.

Date of Effectiveness

45. The objective of management is to bring the Third Window into operation as early as possible in FY76.

Mr. Robert S. McNamara, President  
(through Mr. I. P. M. Cargill)  
Mohamed Nassim Kochman *mark*

LS-OPEC  
cc Kuwait  
cc Saudi Arabia  
cc Qatar  
cc UAR  
✓ cc Third Window February 25, 1975  
Window

Visits to Kuwait, Saudi Arabia,  
Qatar and the United Arab Emirates

I visited from February 3rd to February 20th, 1975 Kuwait, Saudi Arabia, Qatar and the United Arab Emirates. As you indicated, during the discussion of my briefing, I restricted myself to the questions of immediate interest to you namely: a) the increase in voting power and subscribed capital for OPEC countries; b) the Third Window lending facility. You also indicated that I should give an "early warning" about our borrowing program for FY1976. One note was prepared on each subject cleared by you. During the last briefing, you made it clear that I should avoid discussing, as previously intended, IDA, co-financing, reporting on financial assistance from oil-exporting countries to developing countries and technical assistance. However, you added that unless I am questioned on those topics I must avoid discussing them. You made an exception for Saudi Arabia where I was supposed to ask, on your behalf, the Minister of State for Financial Affairs and National Economy his general impression on our technical assistance program.

I. KUWAIT

On Wednesday February 8th at 11:30 a.m. I had a very long meeting with H.E. Abdel Rahman Salem Al-Ateeqy, Minister of Finance and Oil. Mr. Abdlatif Al-Hamad, Director General of the Kuwait Fund for Arab Economic Development was present.

I indicated to Minister Al-Ateeqy that I am in Kuwait on my first visit to acquaint myself with local authorities and financial institutions and most of all, to convey to him your views on two very important matters of mutual concern: the increase in voting power and subscribed capital of OPEC members and the "Third Window" lending facility.

At the outset, the Minister said to me that he was very upset by the continuous reference, in all quarters and the international press, to the so-called "oil surplus countries" (terminology he dislikes profoundly) in order to explain all the difficulties of world economy. He was displeased by this kind of unfair treatment given to the oil producing countries. He stated that Kuwait has always cooperated sincerely with others including the World Bank. Kuwait is still prepared to intensify its collaboration with the international organizations and mainly the World Bank provided "the brain washing about the so-called oil surplus countries" is stopped. He made a reference to the first study made by the Bank on oil which he considered not to be "in the right direction" and he actually made the usual representation at that time through Mr. Al-Sharek who was member of the Bank's Board. He came back several times on the words "oil surplus countries" and emphasized that his country needs every cent it receives from oil sales for its long-term development and nobody should forget that their resources are of a non-renewable nature.



He then invited me to put his remarks in the right context and chiefly not to interpret them as a hostile attitude either to the Bank or its management. He wanted me just to know how he feels about the propaganda made about the oil producers. As a matter of fact, he added, I know very well Mr. McNamara and I admire the work he is doing. He reaffirmed his full support to you and the policies you are promoting as Head of the World Bank and he would have soon the opportunity to state it directly to you.

I intervened and said that all his comments are well taken but I would like, before making my presentation of the topics mentioned a while ago, to come back to the Bank study on oil he spoke of and bring, with his permission, a brief clarification. I reminded him that that particular first study was followed by others more documented and Mr. McNamara was very clear on this subject in his speech during the annual meeting in September and his report to the ECOSOC later. Mr. Al-Hamad supported my clarification and went further by mentioning the recent article of Mr. Chenery as illustration of the fair position of the Bank on the whole question of energy.

I then made my presentation of the increase in voting power and subscribed capital for OPEC members and the Third Window.

1. Increase in subscribed capital

At the beginning of the discussion the Minister was slightly tense and was not quite sure that such an exercise would place the OPEC members, in general, and Kuwait, in particular, in a stronger position or enhance their participation in the life of the Organization. I replied that when one goes through the figures which are in the note and others that I quoted the net result of such an increase is not only in the interest of the OPEC members but also the LDCs. I went on adding that this increase in voting power was not symbolic, it will strengthen the hands of the oil producing countries and by way of consequence all the developing countries who will have a better say and a strong status within the Bank and more specifically at the level of the Board. Moreover, I stressed the fact that for such an effective and meaningful role, in the final analysis the price is not that high to OPEC members. It will not cost much to Kuwait, for instance, in terms of paid-in capital, to increase its voting power from the present 0.33% to the proposed 1.66% and referred to the note you cleared. Mr. Al-Hamad intervened and added that this increase corresponded any way to the demands made many times by OPEC members. The Minister then said that he would like to study it further and assess all the implications and that I should know that he approach all this matter in a "constructive way" and will act in the best interest of the cooperation between Kuwait and the Bank. He then turned to Mr. Al-Hamad and asked him to see him later to study this question with the view of positive results.



## 2. Third Window

The Minister did not put the "Dutch proposal" in its proper context and thought it was quite a different proposal, in every aspect, from what the Kuwaitis had in mind. I indicated to him that he will realize after reading the note that as I stated during my presentation we should look at this new facility as an exercise consisting of two stages. The first stage is the interim scheme to be started on the basis of voluntary contributions to the subsidy and this was suggested by the Dutch delegate. I reminded the Minister that after Mr. Al-Hamad's statement in the Development Committee and the strong interest it produced, the Ministers referred it to the Bank for study and presentation of a proposal later to the Development Committee in June. However, multilateral negotiations of this kind are going to be very lengthy and complex and IDA replenishment successive negotiations, for instance, have demonstrated it. Precisely, the Dutch came in support of the Third Window and suggested that we proceed, as an interim measure, on the basis of voluntary contributions. The Bank management, taking into account the urgency of the catastrophic situation of the poor countries, wished to take advantage of this initiative without any delay and with the view of launching this operation as quickly as possible. Thus, the Dutch initiative is quite in the right direction and should not be construed as a move against "the Kuwaiti proposal". It paves the way rather to the second stage of the scheme when the permanent structures of the Third Window will emerge from negotiations which, I recognized, will be long and difficult. Mr. Al-Hamad intervened in the discussion and confirmed what I said and elaborated abundantly on the details.

After insisting on the interim and urgent character of the voluntary contributions to the Subsidy Fund, I clarified that for the first year the management of the Bank hoped for amounts between 100 and 150 million dollars from 4 or 5 OPEC members including 25 million dollars from Kuwait and 100 million dollars from 4 or 5 OECD members. The Minister immediately noted that much more is demanded from OPEC members. He felt that OECD members should contribute for a larger share. Moreover, he felt that the contribution expected from Kuwait was on the high side. I indicated to him that the contributions I quoted are, to a large extent, illustrative estimates of what we think could be mobilized quickly on a voluntary basis from the OPEC members because of their relative capacity to respond without the delays characterizing the legislative procedures required in some of the OECD countries. We frankly think, I added, that the assumption is that 50%, or maybe more, of the initial voluntary contributions might still come from the OPEC members precisely because many of them can act quickly. Now, when we look at the sharing of contributions between the groups of potential donors, a very important point must be kept in mind: this proportion between OPEC and OECD, at this particular juncture, bears no relation whatsoever to the shares which may later emerge in a negotiated burden-sharing agreement for a permanent third window lending facility. The figure of 25 million dollars expected from Kuwait is indicative. After a short pause, the Minister glanced once more through the note and asked me to clarify what we mean exactly in this note by "additional capital or reserves in amounts adequate to protect it (the Bank) against the risk of Third Window loans".



February 25, 1975

I would say that the atmosphere was tense at the beginning for reasons certainly unrelated to our meeting but became quickly very cordial and pleasant. In conclusion, Minister Al-Ateeqy said that he views the "Third Window" with sympathy and the more so that Mr. Al-Hamad put forward the proposal in Washington and he himself fully endorses it. He would certainly like this proposal to go through. Their willingness to cooperate fully with the industrialized countries, he added, is unquestionable. He asked Mr. Al-Hamad to initiate the work to be done in the light of the note that I gave him in order that action can be taken, after further elaboration of the proposal, by the new cabinet.

### 3. Borrowing program

I gave the Minister the short note that was prepared before my departure from Washington and cleared by you. I explained that I do not intend to discuss this matter at this point because Mr. Cargill will do it in the next 3 months. My purpose was mainly to give him an "early warning" about our borrowing program mainly in FY1976. I stated that as in the past, and particularly in FY1975, the Bank will be looking to OPEC members to support its borrowing program. In this program we hope to be able to raise about 300 million dollars in Kuwait. The Minister commented abundantly on past cooperation with the Bank in this field. He added that they are well disposed towards the Bank. However, they will have to study this matter with "precaution" and in the light of their own final figures concerning the level of oil production, revenues, commitments within their aid program and the requirements of their own financial market. He concluded saying that by the time he sees you during your forthcoming visit he will have a clearer idea on the future prospects.

## II. SAUDI ARABIA

### 1. RIYADH

While in Riyadh I met twice with H.E. Mohammed Aba Al-Khail, Minister of State for Financial Affairs and National Economy.

#### a) First meeting

On Sunday, February 9 at 4:30 p.m. I met with H.E. Mohammed Aba Al-Khail, Minister of State for Financial Affairs, and National Economy. H.E. Abdul-Aziz Al-Rashed, Deputy Minister for Financial Affairs and Mr. Ahmed Sani El-Darwish, Assistant Director - Projects Department EMENA, were also present.

I exposed to the Minister the object of my mission and gave him the notes on the increase of subscribed capital, the Third Window and the Borrowing Program.



After listening to my presentation of the proposed increase of subscribed capital he raised few minor points. He asked for clarification on the increase of the authorized capital and the concept of preemptive rights.

I passed to the Third Window. He wanted to know whether this new lending facility is different from IDA and why. He was not clear about the subsidy component of the new facility and noted that the level of voluntary contributions is higher for the OPEC members than the OECD members. Finally he was anxious to know who would manage the Third Window. I undertook to clarify these questions and made again the distinction between the interim scheme and the permanent one adding that the staff of the Bank is preparing a study in view of the meeting of the Development Committee in June.

He then said that he would like to have more time in order to read the notes I gave him and then convey to me his first impressions. He promised to meet with me the following day. I thanked him for receiving me a few hours after a long meeting of the Council of Ministers and wished to avail myself of the opportunity of the presence of Mr. El-Darwish to talk about technical assistance. More precisely, I told him that you requested me to have his general impression on the technical assistance activities of the Bank in the Kingdom.

The Minister indicated to me that he has discussed with you a year ago the needs of Saudi Arabia for technical assistance and you both agreed to start a program. He feels that the response of the Bank was rapid and the opinions of the technicians have always been objective. He considers that the collaboration is very good but an expansion of the work of the Bank in the Kingdom is urgent and necessary. He mentioned that the week before he discussed with Deputy Minister Al-Soghair and Mr. El-Darwish the procedures that would then need to be adopted. He is of the opinion that a technical assistance coordination Representative in Riyadh is highly necessary to meet these new circumstances. According to the Minister his role would be to:

- (i) help the different departments of government and agencies to specify their requirements;
- (ii) transmit these requests to Washington and ask for assistance in the form that is appropriate, and
- (iii) should circumstances justify it, fly to Washington to discuss such requests alone or together with the key persons in the requesting Departments.

I promised the Minister that I shall relay his request as discussed with Mr. El-Darwish to the President of the Bank. In conclusion, the Minister seems to be very happy with the technical assistance program initiated by the Bank. He repeated several times that they trust the advice given by our staff and the neutrality and objectivity of the Institution. However, there is the feeling, at least the way I sense it, that they wish a substantial expansion of our advisory services without delay. They have a great confidence in the Bank's work and we should capitalize on the kind of enthusiasm they have towards the Bank and its staff.



February 25, 1975

b) Second meeting

I met with H.E. Minister of State Aba Al-Khail a second time on Monday February 10th at 5:30 p.m. H.E. Abdul Aziz Al-Rashed was present.

The Minister indicated to me that he read the notes and had few comments and clarifications to seek.

- Increase of subscribed capital

At the outset, he regarded this increase of the subscribed capital as another form of financial assistance to the Bank through the paid-in capital it implies. He wanted to know which are the OPEC countries that asked for such an increase of the subscribed capital. With this in mind, he commented at length on the policy of the Saudi Government which consisted always in supporting the activities of all international agencies and specially the World Bank and the IMF. He stressed that his country is helping the poor countries in various ways: bilaterally, through international organizations and regional institutions and through the Saudi Development Fund. As a matter of fact their contributions to various Banks and Funds are usually the highest.

He thinks that cooperation between OPEC members - and Saudi Arabia in particular - will not be limited to subscribing in the increase of capital. Saudi Arabia is a shareholder and will cooperate with the Bank in many different ways whether or not it increases its subscribed capital. Having said this he came back to the specific case of Saudi Arabia and indicated that his government would be seriously thinking of increasing its subscribed capital. Now, as far as the whole OPEC group is concerned, a doubling of the voting rights is reasonable but tripling it merits further examination.

- Third Window

The Minister introduced the same ideas about the aid effort made by the Kingdom and its participation in all sorts of Banks and Funds. In this context, he felt the industrialized countries should contribute more to this new facility. He liked to know who would benefit from the Third Window. I replied that it will essentially be of benefit to the most seriously affected countries and the poor ones. He inquired about the list of countries and wanted to know whether we have the same classification as the IMF or the U.N. Then, he asked whether we have approached Iran or not and what was the reaction I got while in Kuwait.

I provided him with all the explanations he expected and added that the beauty of this scheme is that with a small contribution to the subsidy Fund it will make it possible to make a large volume of lending. The fact that loans on intermediate terms can be made give a great multiplier to OPEC contributions. Moreover, this is a special occasion to OPEC members



to demonstrate their willingness to effect a quick and meaningful transfer of resources to the developing countries through existing institutions. The resources would enable a significant contribution to be made towards meeting the financing needs of the most seriously affected countries and the poorer ones and at the same time this will make it possible to re-allocate IDA and IBRD funds to the MSAs and poorest countries. I concurred with the Minister that there are many Banks and Funds that have been created by the OPEC members. Precisely, until such date as these institutions are operational, it seems to me useful to take advantage of the ready availability of existing staff and expertise of organizations as the World Bank. Finally, contribution to the Third Window will draw great publicity and recognition to OPEC members.

The Minister concluded this discussion by stating that their reaction is positive but they will have, however, to analyze the figure of 35 million. He will review both the increase of the subscribed capital and the Third Window and by the time you will visit the Kingdom he hopes to be able to make firm commitments on both subjects.

- Borrowing program

I gave the Minister the note on our borrowing program and explained to him that he will be approached in the near future. He stated that he would not like to comment on the figure of one billion dollars at this stage. He can only promise that in due course they will study our program carefully.

2. JEDDAH

On Tuesday, February 11th at 6:00 p.m., I met with Sheikh Abdul Aziz Alquraishi, Governor of SAMA. Sheikh Khaled Algosaibi, Vice Governor, was also present.

I gave the Governor copies of the notes about the increase of subscribed capital, the Third Window and the Borrowing program.

- increase in subscribed capital

Governor Alquraishi wondered whether a real profit would be gained from such an increase. Would this bring more influence on the decision-making process? The weight of the large shareholders will be still determining in terms of voting power. I indicated to the Governor that it seems to me a great improvement would be achieved if and when the OPEC members support the sort of increase in subscribed capital which would raise their voting power to 15%. I think that the whole exercise is in line with what has been advocated by OPEC members. I added that one should not look at the proposed increase in the voting power of Saudi Arabia - from 0.49% to 2.86% - in an isolated way. Let us concentrate for a moment on the group represented by Mr. Al-Atrash to which Saudi Arabia belongs. There are



5 OPEC members in that group and because of their proposed increase in subscribed capital the voting power of the whole group would go from 3.53% to 7.98%. This is a tremendous jump and puts the group in a very strong position since only the United States and the United Kingdom would have a higher voting power. I did stress the fact that their grouping in the Bank illustrates forcefully the change of situation that could prevail if the OPEC members were in favour of such an increase. Indeed, their group consists of 12 countries out of which 5 are oil exporting countries and by bringing their financial strength to that group they give a different status to the group. At the level of all the LDCs the results are similar because when we add the votes of the oil exporting countries to those of the rest of the LDCs we reach almost 45% of the global voting power. If we keep in mind that there are also some industrialized countries such as the Scandinavians that frequently support the LDCs we can safely say that a serious improvement has been achieved and the Bank obviously has reconsidered the OPEC members position and adjusted to their new circumstances.

The Governor asked me to explain to him why the authorized capital had to be increased and the related question of preemptive rights. He wanted me also to elaborate on the paid-in capital in case of increase of their subscribed capital and the amount of money the Government would have to put in. After my explanations the Governor said that he feels that doubling of the voting power of the OPEC members would be reasonable but tripling it necessitates further study.

- Third Window

The Governor said that he has not received anything from the Bank about the Third Window and he appreciated the presentation that I made on the subject and the note on this subject will make it easy for him to study it thoroughly later. He wished to know, however, the difference between this new facility and the IMF oil facility. Who is going to control and manage this new Fund, what are the criteria of eligibility. I indicated to him that all these matters and others will be dealt with in the study being prepared by the staff of the Bank, and after discussion by the Board, detailed proposals will be put forward for discussion during the meeting of the development committee in June. Then I came back to the interim scheme based upon the voluntary contributions to the subsidy fund and reassured him that this fund will be operated in close consultation with the contributing countries. The Governor wanted to know if the United States and other OECD countries were going to contribute and who has been already approached. I replied that, at this stage, I was personally concentrating my efforts on the OPEC members with whom I am to maintain close liaison. So, I would not like to speculate about the OECD members but I know that Mr. McNamara has just initiated talks on the Third Window with those countries. I added, when you will meet with him during your forthcoming visit to Jeddah you will be in a better position to answer this question.



The beneficiaries of this new facility seemed to interest particularly the Governor. I told him that the facility is really designed to meet the needs of the most affected countries and the poorer ones. He then spoke at length about the importance and the scope of the assistance given so far by the Kingdom to the poor countries and the role assigned to the Saudi Arabian Development Fund. He touched upon joint-financing with the Bank.

Finally he indicated that, at this stage, he can say that he views the Third Window favorably although he has still to learn more about it. In principle, he does not "disagree with this concept", but feels that 35 million dollars as contribution from the Kingdom was on the high side.

- Borrowing program

I gave a copy of the note on this subject to the Governor and made a brief presentation. He indicated that he will take note of the facts and figures and there are certainly many occasions for exchange of views on the borrowing program.

III. QATAR

I did not meet the Minister of Finance and Petroleum because he had left for Vienna the day before to attend the OPEC Conference. However, it is only after his departure that the Ministry was notified that the Conference was postponed.

In Doha, I met with Mr. AbdelKadir Al-Qadi, Director General for financial affairs of the Ministry of Finance and Petroleum, and later, several times with Mr. Madhat Abdul Latif Masood, Director of the Minister's Office and Alternate Governor of the IMF and the Bank for Qatar.

1. Meeting with Mr. Al-Qadi

I met with Mr. Abdel Kadir Al-Qadi on Saturday, February 15th at 9:30 a.m. He said that the Minister regretted very much to have to travel because he was looking forward to this meeting and actually had cabled to me in Washington. I indicated to Mr. Al-Qadi the object of my mission and made a presentation on the three topics. I handed him the notes and told him that they were cleared by you and I would be very grateful to him to give them to the Minister.

- Increase in Subscribed Capital

Mr. Al-Qadi said that in the absence of the Minister it is difficult to offer any official opinion. However, he would like to speak on a purely personal basis. He feels that no matter how we look at this question it has political implications and it is not just an increase of subscribed capital to strengthen the position of the OPEC members. He does not doubt that the management of the Bank is exploring all possibilities to promote cooperation. However, this scheme will result in payment of money to the Bank, thus it is another way of indirect fund raising for the Bank. The resources of Qatar are



February 25, 1975

limited and its income low compared to other countries like Saudi Arabia, Kuwait or Iran. In spite of that, added Mr. Al Qadi, we are helping very much the developing countries by way of loans on soft term and grants. "We consider that this increase in the subscribed capital should be a part of the overall participation in the life of the Bank and not an indirect way of getting only more money". I then clarified many points and told him that we had indication from Mr. Al-Atrash, Executive Director for his country that the Government of Qatar would support an increase in the share capital of OPEC countries to 15% and accepts also the order of magnitude of the individual share of each country. My purpose is to obtain confirmation of the stated intention of the Government. He replied that he did not remember any correspondence to that effect and it is difficult for him to confirm anything in the absence of the Minister.

- Third Window

Mr. Al-Qadi stated that they are always ready to consider proposals oriented towards assistance to other countries. However they have now some serious constraints. He again indicated that he is speaking on his own behalf and cannot commit the Minister who is absent. In the context of their policy of assistance they certainly agree on the principle of setting up a new lending facility such as the Third Window. He concluded that he would have to consult with the Minister on all these issues (increase in subscribed capital and third window). He will try to brief him by phone and particularly about the figures advanced in both cases.

2. Meeting with Mr. Masood

I met with Mr. Madhat Abdul Latif Masood, Director of the Minister's office on Sunday, February 16th at 10:30 a.m.

I essentially treated the same subjects with him.

- increase in subscribed capital

Mr. Masood confirmed to me what was indicated to you by Mr. Al-Atrash. He wanted, however, to know more about the criteria adopted to arrive at the figure retained for Qatar and the impact of the increase for the OPEC members on the rest of the LDCs. I explained to him how we have proceeded at this stage of the exercise and made it clear that the increase in the voting power of OPEC members will be made in such a way as it would have minimum effect on the voting power and representation of the other developing countries. This is our objective and it is of course conditional to the outcome of further discussions and negotiations to be undertaken in due course.



- Third Window

It was stated by Mr. Masood that in principle they agree on the third window lending facility. However, even if we are talking of an interim scheme with voluntary contribution it would be desirable to know the basis for fixing the amount of the individual contributions. It is very important to clarify this question because the yardstick of financial strength is not that clear to him. The OPEC members have different level of oil production different reserves and specific commitments within their respective aid programs. Moreover, he was eager to learn about the position of Saudi Arabia and Iran and their respective contributions. He said that he did not anticipate that 15 million dollars would be expected from Qatar since there are 13 OPEC members and a quick look at the figures has prompted him to anticipate a lower figure. He does not have anything against the whole scheme and he hopes that the Minister will be in a position before your arrival to Doha to form a final opinion.

He then said that he does not want to miss this occasion to confess that, although they have always been very cooperative with the Bank, they have not yet received any tangible assistance from the Bank. He attended the annual meeting in Washington and his delegation had discussions with the officials of the Bank. They expect the Bank to help them in providing technical assistance but so far nothing has happened. I replied that to my knowledge the Bank has always been prepared to assist them and mainly in the field of development policy where Qatar might benefit substantially from our technical and advisory services. I made reference to some letters that were sent to the Minister of Finance and Petroleum and particularly to a letter from Mr. Wapenhans dated September 5th 1974. I assured him that the Management of the Bank and the EMENA Region were very anxious to bring their contribution to the difficult task facing the country. The Bank will certainly provide technical assistance in those fields in which we believe we have the expertise required and where the recipient country can make proper and good use of the help provided. Actually, the responsible authorities in the Bank are working hard on a program of technical assistance for the area that will take into consideration our own possibilities and I am sure that Qatar is not forgotten at all.

- Borrowing program

I indicated to Mr. Masood what were our immediate preoccupations and left with him copies of the notes including the one concerning our borrowings. He affirmed that Qatar has cooperated with us in the past and will continue. The Minister will have to decide on the figure mentioned in the note. However, he is almost sure that it will be difficult for the Bank to borrow in dollars and their preference would be for a package of currencies equivalent to SDRs.



February 25, 1975

IV. UNITED ARAB EMIRATES

In Abu Dhabi I met several times with H.E. Mohammed Habroush, Minister of State for financial and industrial affairs and Dr. Hassan Abbas Zaki, Deputy Chairman of the Abu Dhabi Fund for Arab Economic Development.

1. Meeting with the Minister

I met with Minister Habroush on Tuesday, February 18th at 11:00 a.m. After my presentation of the increase in subscribed capital, the Third Window and the borrowing program I handed the notes to him.

- Increase of subscribed capital

The Minister stated that he agrees on the principle of such an increase. As a matter of fact he had, in the past, the occasion to indicate to Mr. Cargill that the future cooperation between the Bank and Abu Dhabi will depend on their say in the Bank which should reflect their present position. So, he welcomes this initiative on the part of the Bank which he regards as in the right direction. Agreeing on the principle implies, of course, consultation and further discussion of the figures proposed for the U.A.E. which he is not in a position to do in the absence of the Ruler who has to decide.

- Third Window

The Minister wanted to know the reactions of the countries I have visited so far. He expressed his genuine interest in the Third Window lending facility and added that he will indicate a figure once he consults with other officials and after the matter is brought to the attention of the Ruler. He added that I should bear in mind that they were put in a critical situation by all the Oil Companies who cut down the level of oil output to some 500,000 barrels per day thus contributing to create a dangerous financial situation here. Nobody remembers that only two years ago their reserves were not over 100 million dollars and they have many commitments on two fronts: internally, to develop their industrial basis and to promote social and economic development and, externally, to face the demands of their huge aid program. He stressed the fact that they are certainly the country who gives the largest percentage of their revenues in direct aid for development outside the U.A.E. He mentioned that my visit has taken place at the right time because their demands as far as the Oil Companies are concerned were met - i.e. to bring back the level of oil production to 1,3 million barrels a day - and this clarifies the atmosphere. The Minister added that Mr. Witteven was in Abu Dhabi a few days earlier and no commitments were made mainly because of the "crisis" created by the oil companies and its financial implications. He concluded saying that he does not want to ask any specific questions about the Third Window lending facility, he will analyze the scheme with Dr. Zaki but he wanted me to know they agree on the general idea and by the time you are there they will examine both the increase in subscribed capital and the Third Window with you because they would have already terminated the required consultations.



- Borrowing program

The Minister stated that they have always been predisposed to cooperate with the Bank and the past experience proves it. He will approach this matter of future borrowings with a very open mind. I asked him how should I interpret his earlier reference to Mr. Witteven. Should I relate it to our own preoccupations in the Bank? He said: "not at all" and indicated that Mr. Witteven arrived to Abu Dhabi at the wrong time because the Ruler was absent and is still in Pakistan since the end of the year, he himself was in London and most of all they were seriously concerned by the attitude of the Oil Companies to the extent that they had already prepared an emergency plan of action in case of no change in the attitude of the oil companies. I learnt from reliable sources that in case of failure of the negotiations with the oil companies the Government was prepared to cut down investments drastically, reduce substantially the aid program and reconsider all the participations and contributions to international organizations.

2. Meeting with Dr. Zaki

On Monday February 17th at 11:15 I had a meeting with Dr. Hassan Abbas Zaki, Vice Chairman of the Abu Dhabi Fund for Arab Economic Development. I discussed in general terms the increase in subscribed capital, the Third Window and the borrowing program because the Minister told me that he has already been in touch with him.

Dr. Zaki was very anxious to establish close working relationship with the Bank. To that effect he feels that the Bank should help him in organizing and restructuring the Fund. He said that they are in an urgent need of training staff and recruiting competent people. He made reference to that effect to a discussion he had with Mr. Upper from the Bank to whom he indicated this need for recruiting competent staff, possibly on secondment from the Bank.

He went on explaining to me the policy of the Fund and elaborating on their operations in other countries. Obviously he wants to develop with the Bank group a program of joint financing of projects. He mentioned that he had an interesting meeting with Mr. Cherif Hassan to explore the best ways of collaboration with IFC.

I exposed to him our approach concerning joint or parallel financing and your own frequent statements on this question and what we have done so far. He asked me to send him feasibility studies or appraisal reports on projects in Malaysia, Pakistan, Sri Lanka, India and Bangladesh. He added that the Fund is also prepared to join in projects in Africa where they have sent a mission to explore all possibilities. I left with him a list of projects in Asia and Africa which are in the pipeline and promised him that I would convey to the management all the views he has expressed. He asked me also to convey to you the desire of the Government to create a money market in Abu Dhabi and whether the Bank could give help in this particular field.

. . . . .



CONCLUSION

In the context of my discussions in the four countries visited I can state that the officials I met with have reacted on both topics - increase in capital subscription and Third Window - in a very encouraging way. However, their final positions depend upon the consultations they have initiated on the basis of the notes I left with them reflecting the present thinking of the management and the discussions they wish to have with you during your forthcoming visit.

With hindsight, I feel that all the officials visited had, deep in their mind, the unity and the solidarity that should prevail among OPEC members. From their questions and reactions one could sense easily that they expected all the other OPEC members to be approached in order to avoid any misinterpretation of their determination to keep their Organization as strong and united as possible.

On the increase in subscribed capital they wanted more specific information on the criteria adopted to determine the voting power of the OPEC members and assurances that such an increase will not take place at the expense of the other developing countries.

On the third window there was sympathetic response and support in general. However, the officials visited wished to have more details on the scheme and particularly on how it will be operated and the countries which will benefit from it. As stated before, there was expression of opinion that the voluntary contributions (Kuwait: 25 million, Saudi Arabia: 35 million, Qatar: 15 million and UAE: 20 million dollars) seem to be on the high side and they wish to know more about the guiding principles for determining the amount of individual contributions. Moreover, they hope that the OECD members will participate and contribute to the subsidy fund and that we should not expect OPEC members to bear an excessive burden.

At this point, in order to avoid any possible ill-feeling or misinterpretation of our initiatives, we should contact as soon as possible those OPEC members which are not yet aware of the discussions initiated with the four countries I visited. For the success of the scheme they should be convinced to endorse the interim phase and contribute to the subsidy fund even token amounts for some of them. At the same time, we need to be in a position to give some kind of indication on the present thinking of several OECD members to those OPEC members already approached and the others as well.

MNKochman:gwh

cc: Messrs. Knapp  
Benjenk  
Shoaib  
Stern

Wappenhans  
Paijmans  
El Darwish  
El Fishawy

Third Window

INCOMING TELETYPE

Distribution:

Feb. 25, 1975

From: Jakarta

SCHULMANN/WOOD

Mr. Schulmann  
Mr. WOOD (D624)  
Mr. J. Adler

THESE ARE MY COMMENTS ON DEFLATOR PAPER AND THIRD WINDOW DRAFT  
AAA DEFLATOR PAPER. IT IS UNCLEAR TO ME HOW DEFLATOR STORY  
TIES IN WITH 7.7 BILLION EXCESS PROBLEMS BUT TRUST THAT  
YOU FIND YOUR WAY BACK TO MAIN TOPIC.

END OF PARA TWO: DEFLATOR UNDERSTATES EROSION ONLY IF  
EXPERTS PREPARING COST ESTIMATES UNDERESTIMATED DEGREE OF  
INFLATION IN DISBURSEMENT PERIOD. COST ESTIMATES OF  
SUPPLIERS FREQUENTLY TAKE ACCOUNT EXPLICITLY THROUGH  
ESCALATION CLAUSES OR IMPLICITLY OF COST INCREASES BETWEEN  
BID DATE AND DELIVERY DATE. THEREFORE CONTINGENCY  
PROVISIONS MAY BE ADEQUATE IRRESPECTIVE OF RATE OF  
INFLATION. I SUSPECT THAT COST ESTIMATES MADE PRIOR TO  
HIGH INFLATION UNDERALLOWED FOR PRICE INCREASES BUT THAT  
RECENT BASE COST ESTIMATES MORE ACCURATELY REFLECT  
EXPECTATIONS OF CONTINUED INFLATION. YOU MAKE THAT POINT  
AT END PARA 6.

PARA 4. BEGINNING SHOULD READ: PRIOR TO JANUARY 1974, THE  
BANK HAD NO PROJECTIONS OF INFLATION RATES WHICH COULD BE  
APPLIED TO COST ESTIMATES ETC.

PARA 6. BEGINNING: DELETE RIGIDLY ADHERED TO AND SUBSTITUTE  
APPLIED.

TABLE ON PARA 5. CORRECT IN HEADING 100 INSTEAD OF 110  
ALSO IN FIRST SENTENCE BELOW. REASON FOR DATE OF FIRST  
COLUMN HEADING NOT CLEAR TO ME.

END OF PARA 7: DELETE DISRUPTIVE.

PARA 8 LAST SENTENCE: DELETE IN THE PAST AND SUBSTITUTE  
IN RECENT YEARS OF LARGE COST INCREASES.



THE THIRD WINDOW. DRAFT IS EXCELLENT ESPECIALLY WITH  
MCNAMARA AMENDMENTS.

I HOPE THAT YOU CAN INCLUDE IN REVISION FOLLOWING COMMENTS.

1.03 (G): REFERENCE TO 250 MILLION DOLLARS REQUIRES  
DATE WHICH IS ALSO MISSING IN PARAS 3.17 TO 3.19. I ASSUME  
YOU MEAN IN RELATION TO PEAK AMOUNT OUTSTANDING WHICH  
WOULD BE IN 82.

2.11 (E): WHAT IS PURPOSE OF REFERENCE TO ACCESS TO ALTER-  
NATIVE SOURCES OF CAPITAL? IN PAST WE DISREGARDED OR  
UNDERPLAYED INTENTIONALLY THIS PROBLEM TO AVOID BANK GROUP  
BEING CONSIDERED LENDER OF LAST RESORT. CHECK WITH KNAPP  
WHO IN PAST WANTED NO REFERENCE TO OTHER SOURCES.

FOOTNOTE TO TABLE BEFORE 2.14: PRESENT IN QUOTES IS WRONG  
WORD. WOULD CURRENT WORD BE BETTER?

SECTIONS 3 AND 4 ARE VERY GOOD.

3.01 I DON'T SEE REASON FOR CONCERN REGARDING OVERLAP AND  
AND DUPLICATION, WHICH RAISES UNNECESSARY ISSUES. I PROPOSE  
YOU START WITH SECOND REASON NAMELY POSSIBLE SIZE OF CONTRI-  
BUTIONS AND THEN GO TO FIRST AND SAY THAT ON THE OTHER HAND  
1 BILLION DOLLARS WOULD MAKE MATERIAL CONTRIBUTION.

3.02 AMOUNT INSTEAD OF SCALE OF CONTRIBUTIONS.

3.07 TAKE OUT AT LEAST INITIALLY WHY INVITE ALTERNATIVES

FOOTNOTE TO 3.01. I URGE DELETION OF REFERENCE TO JAPAN  
AND SUBSTITUTE DESCRIPTION IN GENERAL TERMS, ESPECIALLY IN  
VIEW OF JAPANESE NEGATIVE POSITION REGARDING THIRD WINDOW.

3.11 TAKE OUT OF COURSE IN AMENDMENT EVEN IF HE SAID SO.

3.17 MAKE LAST SENTENCE FOOTNOTE.

3.18 AND 3.19 EXPOSITION WOULD BE CLEARER AND MORE CORRECT  
IF REFERENCE TO 15 PERCENT WERE BROUGHT IN LINE WITH  
FINANCIAL POLICY PAPER WHICH DISTINGUISHED BETWEEN RISKY  
AND LESS RISKY BORROWERS. IN LINE WITH FINANCIAL PAPER  
ADDITIONAL RESERVES SHOULD BE 400 TO 450 MILLION DOLLARS

BUT BECAUSE OF CHARTER 100 BILLION DOLLARS WOULD BE ENOUGH  
3.21 REFERENCE IN THIRD SENTENCE SHOULD BE TO EXPECTED  
RETAINED IBRD NET INCOME. PRESENT TEXT COMMITS BANK TO  
ADD ENTIRE WINDFALL TO RETAINED EARNINGS. IT ELIMINATES  
POSSIBILITY OF IBRD CONTRIBUTION TO SUBSIDY FUND AS A  
LAST RESORT, EXCEPT AT EXPENSE OF IDA TRANSFER. IT MAY  
BE ENOUGH TO TALK ABOUT ONE HALF OR UNSPECIFIED PART OF  
WINDFALL BEING RETAINED AND REDUCE PROJECTED RETAINED  
EARNINGS CORRESPONDINGLY.

4.05 PROPOSE DELETION OF LAST SENTENCE REGARDING  
CURRENCY MIX. THIS IS AN UNNECESSARY COMPLICATION,  
ESPECIALLY IN VIEW OF 4.06.

4.07 ADD AFTER VOTING RIGHTS FOR THE CONTRIBUTORS TO THE  
SUBSIDY FUND.

TABLE ON CALCULATIONS. THE TABLE IS INCONSISTENT WITH  
TEXT WHICH ALLOWS FOR 10 PERCENT OF TOTAL AS PROGRAM  
LOANS. SHOULD BE CORRECTED.

I EXPECT TO BE BACK FOR MEETING OF POLICY REVIEW COMMITTEE.

REGARDS

ADLER

440098A IBRD UI

INTBAFRA JEC338 (Telex Nr.)



*Third Window*

## OFFICE MEMORANDUM

TO: Files

FROM: William S. Gaud *WSG*

SUBJECT: Third Window -- Germany

DATE: February 24, 1975

Ernie Stern and I met with Mr. Janssen this morning to find out whether it would serve a useful purpose for me to stop in Bonn on my impending trip to Europe. Janssen was bearish. He says that the budget is in its third reading and that no money will be available for the Third Window during this calendar year -- 1976 being the earliest possible date. The man whom he considers most important to brief is not in Bonn but will be here in Washington on Wednesday, February 26. Janssen will talk to him when he is here and then let me know (through Ernie Stern) if it would be useful for me to go to Bonn.

cc - Messrs. Cargill  
Stern  
Hattori

WSGaud:dbb

## OFFICE MEMORANDUM

*Third Window*

TO: Files

FROM: William S. Gaud *WSG*

SUBJECT: Third Window -- Belgium

DATE: February 24, 1975

Mr. de Groote got back to Washington today and I talked to him about the desirability of my going to Brussels on my coming trip to Europe. He is doubtful that this is a good time to go but he will telephone Brussels in the morning, discuss it with the people involved and then let my office know if it looks as though a visit would be worthwhile. I made it clear to him that my purpose is to elucidate and educate and not to get a commitment -- he having made it quite clear that he saw no chance that his Government is prepared to commit itself favorably either to the IMF's oil facility or to any other new development assistance venture at this time.

cc - Messrs. Cargill  
Stern  
Hattori

WSGaud:dbb



February 24, 1975

Mr. Knapp:

Third Window

During the weekend I re-read the draft paper of February 20 which I gather has been modified during Friday's discussion with Mr. McNamara in the following respects:

- terms of Third Window loans to be 25 years including 7 years of grace.
- subsidy to be 4% not 4-1/2%
- eligibility ceiling lowered to \$375 p.c.
- a performance criterion to be added (a la IDA)
- approval of the Board of Governors *not like sought*

The following additional points occur to me:

a) I would drop Section 2A "Economic Background" in the interest of shortening the paper and because the remit of the Development Committee was not to prepare a justification of the scheme, but an actual proposal. In any case, a proper treatment of the case would require more extensive analysis and discussion than it receives in this section.

b) In substitution for the above, Section 2A might contain a brief statement of the objectives of the Third Window which, as I understand it, are to provide an additional flow of resources to the LDCs on concessionary terms. The way in which this would be achieved in different classes of case should be mentioned: e.g. substituting for IDA in some countries, thus releasing more very soft funds for the really poor; or substituting for Bank lending in other cases, thus releasing more conventional Bank funds for the better off countries. Lastly, the grant element of Third Window loans should be mentioned and compared with that of Bank loans and IDA credits.

c) Given that Third Window lending is to be additional, the budget implications should be faced (see footnote on p. 13). Can we process more projects in FY 76 without adding to the staff? My guess is that we could do some more without adding staff, but not a billion dollars' worth, even allowing for an increase in the Bank's share of project costs in appropriate cases.

d) On the form of contributions, some of the suggestions in the paper, though ingenious, are complicated (e.g. buying back earlier Bank loans at par and permitting the Bank to credit the interest subsidy fund with the difference between that value and the discounted value). I would prefer, as you would, a simple choice between an immediate payment in cash and a payment over a limited period of years but with interest accruing either at a fixed rate or at a rate related to interest rates in the country concerned. However, I doubt that contributors who opt for the latter will agree to maintain the value of their contributions, whether in dollars or some other standard. This form of exchange risk will, I believe, have to be borne by the borrowers. For this reason, I think that the term over which contributions would be paid in should

be fairly short and not run the full period of loans made through the Third Window.

e) We agreed that investment of the subsidy fund in a special bank bond seemed inappropriate. One practical objection is that the Bank would not consider issuing a 25 year bond at 8-1/4%, the present average cost of borrowing, at a time when interest rates appear to be falling. But to pay a lower rate might penalize the subsidy fund. If, as proposed in # 4.05, the contributions are to be converted into a mix of currencies matching as closely as possible the currencies likely to be disbursed, then corresponding portions of the contributions will presumably have to be invested in long-term obligations of the governments concerned. Investment in private markets would be prudent only if we retained flexibility, as in the case of the Bank's liquid funds, and that would have the disadvantage of making it impossible to calculate precisely the future earnings of the fund.

f) In # 4.06 (Method of Drawing) the provision for a ceiling on the total interest subsidy payments under a particular loan is obviously necessary. However, I do not see why the full amount should be used if disbursements turned out to be slower than forecast. This would put a premium on slow implementation of projects. Any surplus should revert to the fund and be used for further subsidies (assuming the scheme had been put on a permanent footing) or used to cover the contingent foreign exchange risk mentioned above.

Raymond J. Goodman



✓ *South Africa - 1980 Hemb. Oblig.*  
"B.A.P. - Third Window"

Mr. Robert S. McNamee

February 21, 1975

William S. Gaud

Third Window and Increase in  
Bank Capital -- South Africa

I met with Mr. Robert van S. Smit this morning to discuss the Third Window. He was accompanied by Mr. Al Gerstein, formerly of the Fund and now advising Mr. Smit as a Consultant.

I explained our thinking on the Third Window at length, and found Mr. Smit quite sympathetic to the idea that South Africa should contribute to the Interest subsidization fund. He is leaving for South Africa this weekend (returning about March 15) and will recommend to his Government that it contribute. He was not prepared to mention a figure, but said that, if South Africa contributed, he hoped it would not be a token contribution.

As far as he personally is concerned -- and he has not yet discussed the Third Window at all with his Government -- he would ask only that three conditions be met. First, that Third Window loans be made to the poorer LDCs; second, that a substantial proportion of the funds be lent to African countries; and, third, that the Third Window be administered by the Bank and not by some separate agency. He is strongly against the proliferation of aid agencies and is confident his Government shares this view.

As he was leaving, Mr. Smit asked me to tell you that if, as and when the Bank increases its capital South Africa will want very much to take part. He says there has been a distinct change in the attitude of the Government from the days when it was either unwilling or reluctant to share in the Bank's capital increases.

cc - Mr. Knapp  
Mr. Cargill

WSGaud:dbb

Third Window

Mr. Masaya Hattori

February 21, 1975

I.P.M. Cargill

Mission to Europe: Terms of Reference

You will leave Washington on February 24, 1975 for Copenhagen accompanying Mr. Gaud for his exploratory meeting with representatives of the Nordic members on the Third Window. You should return on or around February 28. During your mission, you will render Mr. Gaud any assistance he may require.

MHattori:ed  
IBRD





# Record Removal Notice

<b>File Title</b> Bank Administration and Policy - Third Window Loans 1975 / 1977 Correspondence - Volume 1		<b>Barcode No.</b>  1056272		
<b>Document Date</b> February 19, 1975	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Mr. I. P. M. Cargill, Vice President To: Mr. Ernest Stern, Director, Development Policy From: Douglas J. Fontein, Legal Department				
<b>Subject / Title</b> Third Window				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Diego Hernández</td><td><b>Date</b> June 5, 2025</td></tr></table>	<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025
<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025			

BRITISH VIEWS ON THE PROPOSAL FOR  
A THIRD WINDOW OF IBRD LENDING:

FEB. 18/1975

The main concern of the British Government is to maximise the flow of resources to the poorest countries.

2. No firm financial commitment can be made at this stage, but the general attitude of the British Government to the Third Window idea is positive. They would be prepared favourably to consider contributing to the subsidy fund in advance of detailed burden-sharing arrangements being worked out. Provided that the details of the proposed scheme are acceptable to them, and appropriate contributions to start the scheme on a reasonable scale are forthcoming from other industrialised and OPEC countries, they could consider a contribution of some \$10 - \$15 million in support of a subsidy fund of between \$200 and \$300 million.

3. The main elements which the British Government would wish to see in the scheme are:

(a) The subsidised lending should be concentrated on countries with an income per head below about the IDA limit of \$375, and particularly on those below \$200.

(b) The resources lent under the Third Window should be additional to those already planned for IBRD lending.

(c) The scheme should result in an increase in the volume of IBRD lending to the group of countries with per capita incomes below \$400.

(d) Lending under the Third Window should not be confined to projects, but should also be for programme lending in appropriate cases.

If/.....



4. If to secure maximum support for the scheme, it were necessary for some of these elements to be somewhat modified, for example by making the upper limit of eligibility \$500 per head income, the British Government would not wish to rule this out, provided that not more than a small proportion of lending would go to countries with incomes per head above \$400. However it is regarded as important that the scheme provide additional IBRD lending to countries with per head incomes below \$400.
5. The British Government will be interested in the question of the voting rights in relation to the Third Window, primarily because of the possible link with country eligibility. It might be useful to add a population criterion, so that the most populous countries amongst those eligible would become the major beneficiaries of the scheme.
6. The introduction of a Third Window will raise the question of the adequacy of the IBRD's capital earlier than would otherwise have been the case. It appears that about \$500 million of additional callable capital will need to be in the IBRD's hands by the end of FY 1977 if the formal requirements of Article III, Section 3 are to be met. Comments on this point will be welcome in due course.

18 February 1975.

February 12, 1975

Mr. Knapp:

THIRD WINDOW

I very much agree with your general approach, namely to aim for as simple and uniform a system as possible; e.g. standard terms for Third Window loans of 30 years including 10 years of grace, and with interest capitalized during the first five years. However, because this would result in a large proportion of program or other quick disbursing loans going to finance interest (amounting, according to Joe Wood's calculations, to more than one quarter of the total loan) I would suggest either:

(a) eliminating them completely, and confining Third Window assistance to project financing (on the ground that quick disbursing assistance is available from other sources including the Fund and IDA), or

(b) capitalizing interest for a shorter period, say two years. It might also be appropriate in the case of such loans to have a somewhat shorter term, say 25 years of repayment, including five years of grace.

As to your proposals for the interest subsidy fund, I agree that most donors might prefer to pay their contributions into an account in their own central bank rather than give us the cash, and permit us to draw on the account to meet the interest subsidy requirements as they accrue. However, there are two difficulties with your proposal from their point of view, arising from the fact that the accounts would remain open for a period of thirty years:

(a) would they be willing to undertake to pay interest on amounts in the account at a fixed rate of 8%, which is high by historical standards? Who knows what will happen to interest rates over a period of 30 years?

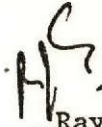
(b) would they be willing to accept an exchange risk in dollars for a period as long as that? I should think it unlikely that the dollar will remain a weak currency indefinitely given the basic strength of the U.S. economy. I doubt that even the German and Japanese authorities would be willing to bet that it would.

On the first point, I think we would have to accept a fluctuating interest rate linked either to the prime rate in the country concerned or more probably to the central bank discount rate. This would have the disadvantage, of course, that we would not know the amount of earnings that we could count on and therefore how much we could commit. We might have to make a conservative calculation of earnings and put any surplus into a reserve, portions of which could be released from time to time for further lending if interest rates continued higher than estimated. Alternatively, we could make a less conservative calculation with the corollary that borrowers might get a somewhat smaller subsidy towards the end of the repayment period. This problem would be materially diminished,



or even eliminated, if the Third Window became a permanent institution rather than a one time event. But in any case we would be well advised to reserve the right, in order to protect the Bank, to adjust the rate of subsidy, a right we might agree to exercise only during the last 10-15 years of loan repayment. Given even a modest rate of future inflation, this would not represent much of a burden on the borrower.

On the second point, I see no alternative to putting the foreign exchange risk ultimately on the borrowers. However, we might lessen the burden (albeit at the cost of reducing the amount available for lending) by putting part of the earnings aside in a reserve against exchange losses. Any shortfall in the reserve could be made up, as in the previous example, by lowering the rate of subsidy during the later stages of loan repayment. Any accumulation clearly surplus to a prudent provision against losses from exchange rate changes could be released for lending.



Raymond J. Goodman

cc: Mr. Wood  
Mr. Gue

*Third Window*

D R A F T  
MHattori:ed

February 11, 1975

To: Mr. A. Rinnooy Kan, Executive Director

FROM: William Gaud

SUBJECT: Third Window: Exploratory Contacts with the Netherlands

On the occasion of my mission to the Nordic countries that I am making at Mr. McNamara's request, I feel it would be useful to make exploratory contacts with representatives of Her Majesty's Government, on the possibility of Netherlands' voluntary contributions in the subsidy fund for the Third Window. As you know we are thinking in terms of a first year trial operation of \$1,000 million of Third Window lending with about 4% interest subsidy, made possible by an interest subsidy fund of \$200-\$250 million in voluntary contributions. Operations would start when \$100 million have been raised.

It would be appreciated if you could give me guidance as to which officials of H.M. Government I should contact.

Cleared with and cc: Mr. Cargill



## OFFICE MEMORANDUM

TO: Files

DATE: February 10, 1975

FROM: Michael H. Wiehen *MHW*SUBJECT: South Africa*South Africa - IBRD/IDA Reg. & M.  
South Africa - IDA Membr. Oblig.  
✓ A B A & P - THIRD WINDOW*

1. On Thursday, February 6, Mr. Robert van S. Smit, "Ambassador, South African Principal Resident Representative to the International Monetary Fund and the International Bank for Reconstruction and Development", called on Mr. Knapp. He was accompanied by Mr. Al Gerstein, formerly Assistant General Counsel in the Fund, now retired and advising Mr. Smit. I was also present at the meeting.

2. Mr. Smit explained that in the 1960's, South Africa had considerably reduced its activities in and contributions to the Fund and the Bank, but that the overall situation was changing and that he had asked for this meeting to explore with Mr. Knapp how his country could participate in the international aid effort. He referred to the direct assistance which South Africa is providing to a number of countries in Southern Africa (like Swaziland, Lesotho and Malawi) and said that South Africa had substantial expertise to offer in a number of fields and would be prepared to make such expertise and also some finance available in conjunction with the Bank. He asked whether there were any reasons why in the view of the Bank such cooperation between the Bank and South Africa in the provision of financial and technical assistance was not feasible. Mr. Knapp replied that the Bank would welcome cooperation in such assistance with any member country, including South Africa, but added that there, of course, might be recipient countries which might not wish Bank Group assistance to be associated with assistance from the Republic of South Africa.

3. Mr. Knapp then explained that South Africa might contribute to Bank activities in three different ways: by augmenting the financial resources of the Bank or IDA, by co-financing projects together with the Bank or IDA, or by providing technical services directly to recipient countries in conjunction with Bank projects.

4. Concerning the possibility of augmenting Bank/IDA resources, Mr. Knapp first referred to the maintenance/increase of South Africa's capital subscription to the Bank and to the release of the 9% portion of its subscription.<sup>1/</sup> Secondly, Mr. Knapp referred to the fact that South Africa had continuously diminished its share in the contributions to IDA and suggested that it might consider participating in the 5th replenishment of IDA resources (negotiations for which would start later this year) but that it might also consider making a special contribution to IDA's resources; he referred in this context to the example set by several Scandinavian countries. Thirdly,

<sup>1/</sup> Since the meeting I have learned that South Africa has fully participated in all increases of the Bank's capital. At the time of the last increase which became effective in March 1971, South Africa wrote to the Bank that it would not subscribe to its portion. However, South Africa did subscribe to the full amount of that increase in September 1974. South Africa has also released the full 9% portion of its entire subscription.



February 10, 1975

Mr. Knapp explained the present status of considerations concerning the "Third Window" and suggested that South Africa might wish to contribute to the interest subsidization fund. He asked whether it would be useful for the Bank to approach the Government of South Africa in its present efforts to obtain support for a third window operation. Mr. Smit said that he obviously was unable to say whether his Government would wish to participate in this facility but he felt that the Bank should indeed inform the Government of South Africa of the scheme under preparation.

5. On the matter of co-financing, Mr. Smit said that while South Africa's interest was really going beyond the African continent, his Government did not wish to spread its efforts too thinly and therefore Africa (East and West) might be the best place to start, considering that the expertise held by South Africans was most relevant in the African environment and would bring the quickest returns there. Mr. Knapp explained the various methods of co-financing (joint versus parallel), the Bank's preference for untied co-financing funds despite its willingness to accept tied funds in parallel financing (e.g., from Canada) provided the terms of the financing are concessional and the cost of the goods supplied is not unreasonable. Mr. Knapp also explained the Bank's rule of normally insisting on international competitive bidding. In this context, Mr. Smit commented that South Africa was basically in favor of the multi-lateral concept but would not like to see its money spent in countries which continuously work against South African interests on the international scene. The practical implication of this comment was not completely clear.

6. The passage of time did not allow a discussion of any details of co-financing. I will meet with Mr. Smit later this week to continue this part of the conversation.

7. Mr. Smit concluded the meetings by suggesting that Bank staff, at all levels as a matter of routine should stopover in South Africa when travelling in the region so as to establish a working contact with Government officials.

7. For the record, disbursements under Bank loans and IDA credits for goods and services from the Republic of South Africa through December 1974 have been \$39 million for the Bank and \$6.8 million for IDA.

cc: Messrs. Knapp  
Cargill  
Husain  
Chaufournier  
W. Clark  
Please  
P. Wright  
de la Renaudiere  
Rotberg  
J. Adler  
Dumry  
Burnester

MHM:cj

*Handwritten:*  
Husain



*Third Window Loans*

Mr. I.P.M. Cargill

February 7, 1975

J. Burke Knapp

Terms for Third Window Loans

Reflecting our conversation yesterday on the above subject, I should like to suggest for your consideration the following pattern of terms for Third Window loans, at least for the first \$500 million - \$1 billion to be initiated on the basis of voluntary contributions.

At least initially, and I would also say for the long run, I think there is a great deal to be said for a simplified and standard set of loan conditions, comparable to IDA. We will be dealing with countries that are on the margin of creditworthiness and I think we can justify making the amortization terms relatively liberal. I would therefore propose a standard 30-year loan with a 10-year period of grace to be employed for both project and program loans.

The interest rate would be  $8\frac{1}{2}$  percent, to be capitalized in the loan for the first 5 years. I note that the amount of interest to be capitalized would be higher for program loans than for project loans because of their more rapid disbursement.

I have not yet been able to get a run-out regarding the size of the interest subsidy fund which would be necessary to provide a 4 percent subsidy under these loan conditions. But I do not believe that it would exceed \$250 million per billion dollars of the loan in view of the fact that the first five years interest payments, being capitalized, would not require a subsidy. I have asked Joe Wood to make this computation.

I realize that further savings might be made in the amount of subsidy required if interest were capitalized in the loan for, say, ten years rather than five. But I would not want to go so far, particularly because I think it would be psychologically bad to have loans run as long as ten years before the borrower had to commence making some payments on the loan out of his own resources.

Under the pattern of loan terms proposed above, the borrower would make no payments out of his own resources for the first five years; in the second five years he would pay interest only at  $4\frac{1}{2}$  percent; and in the final 20 years he would pay off the full amount of the loan with interest at  $4\frac{1}{2}$  percent in equal annual installments of interest and principal. 1/

- 1/ Alternatively, these level payments might be calculated at an  $8\frac{1}{2}$  percent rate of interest, but I think it is more logical to ask from the borrower level payments out of his own resources. I recognize that this pattern would require higher interest subsidies and have therefore asked Joe Wood to make alternative calculations on this point.

cc: Messrs. McNamara, Adler/Wood, Stern, Goodman

JBK:vm



Third Window  
Loans

Mr. I.P.M. Cargill

February 7, 1975

J. Burke Knapp

Interest Subsidy Fund for Third Window Loans

Reflecting our conversation yesterday, I should like to offer the following suggestions on the above subject for consideration.

Firstly, I would suggest that each country contributing to the interest subsidy fund make the corresponding payment into an account in its central bank to be held in the name of the World Bank, with provision for that account to bear interest at a standard rate (say, 8 percent) which would accumulate in the account. The Bank would draw upon this account, pro rata with the similar accounts provided by other donors, to meet interest subsidy requirements as they accrue. Under this system the donor country would not have to transfer any funds across its balance of payments until the actual need for interest subsidies arose. Fixing the interest at 8 percent would define for the Bank the amount of interest subsidy funds at its disposal.

There remains, of course, the question of exchange risk. The Bank will be financing Third Window loans out of its borrowings and other resources, and (in the absence of some special measures) the currencies in which these loans are to be serviced could not be determined in advance. In any case the pattern would no doubt be quite different from the pattern of currencies of the countries which are donating to the interest subsidy fund.

One way to reconcile this disparity would be to ask the donor countries to take the full exchange risk, for example, to make payments into their interest subsidy accounts in their own currencies and then to maintain the value of these accounts in terms of the currencies eventually required by the Bank for interest subsidies. I think such a scheme would be technically possible but I do not pursue it because I do not think it would be a reasonable thing to ask from the donor countries.

A great simplification would be possible if, at least in the case of the initial \$500 million - \$1 billion scheme, the Bank's Third Window loans were extended entirely in dollars. I assume that, at least for this initial scheme, the Bank could safely count on having enough dollars to finance the loans. This would mean that our financing of loans in "unpopular" currencies like the Deutsche Mark would have to be concentrated on the Bank's ordinary loans; but it could be argued that just those countries at the margin of creditworthiness which would be receiving Third Window loans might reasonably be given the "preferential treatment" of receiving loans in dollars.

In this case the interest subsidy accounts with the central banks of donor countries could either be denominated in dollars or denominated in local currency with a maintenance of value provision running in terms of dollars.

cc: Messrs. McNamara  
Adler/Wood  
Goodman



## OFFICE MEMORANDUM

*Handwritten:*  
H. S. ...  
THIRD WINDOW

TO: Mr. J. Burke Knapp

DATE: February 7, 1975

FROM: Joe Wood, <sup>sup.</sup> P & BSUBJECT: Terms for Third Window Loans

1. As requested, we have calculated the subsidy fund required to finance \$1 billion of loans with an interest rate of 4.5%, a grace period of 10 years and a final maturity of 30 years. In each case, all interest during the first five years has been capitalized and added to the loan. The results may be summarized as follows:

Subsidy Fund Requirements  
(\$ million)

	<u>Project Lending</u>	<u>Program Lending</u>
<u>Repayments:</u>		
Level for Borrower	231.5	240.7
Level for IBRD	222.7	231.6

2. The small difference between project lending (which corresponds to the Bank-wide average disbursement rate) and program lending (which disburses in two years) is due to the fact that a part of project loans remain undisbursed even after the fifth year. The more important difference, however, is that \$1000 million of project lending includes \$123 million for capitalization of interest <sup>1/</sup> whereas \$1000 million of program lending includes \$270 million for capitalization of interest. The cost of subsidizing \$1000 million of commitments for items other than interest is \$263.8 million for project lending (level payments to IBRD) and \$381 million for program lending.

<sup>1/</sup> This may be slightly understated because we have assumed interest to be capitalized only once a year and at the end of the year.

cc: Messrs. McNamara, Cargill, Stern &amp; Goodman

JWood:nb

*Third Window Trans*

Mr. William Gaud

February 5, 1975

M. Hattori, Office of V.P., Finance *J*

Third Window: Your Mission to Europe

1. Mr. Cargill is aware of Mr. Sigurdsson's telex to his electors, but doesn't think that the last paragraph binds the Bank in any way. On the other hand I had the impression that Mr. Cargill is thinking along the lines of a trust fund rather than an Account with the Bank.
2. The Dutch have made no indication of the amount they would be willing to contribute voluntarily.
3. The exploratory mission to the Nordic countries was suggested by the Dutch in view of their prestige in European circles on matter of aid.
4. Mr. Cargill sees no objection for the mission including the Netherlands, but in that case, Mr. P.C. Witte, ED for the Netherlands should be consulted.

MHattori:ed  
IBRD

cc: Mr. I.P.M. Cargill



*Third Window*

## OFFICE MEMORANDUM

TO: Mr. William Gaud *[Signature]*  
FROM: M. Hattori, Office of V.P., Finance  
SUBJECT: Third Window: Your Mission to Europe

DATE: February 5, 1975

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MHattori:ed  
IBRD

cc: Mr. I.P.M. Cargill

## OFFICE MEMORANDUM

*Third Window*

TO: See Distribution Below

DATE: February 4, 1975

FROM: M. Hattori, Office of V.P., Finance

SUBJECT: Third Window: Meeting of Working Group

You are invited to a meeting of the Third Window Working Group at 15:00 in my office (E-1231) Thursday, February 6, 1975. The objective of the meeting will be to identify the issues that will have to be settled prior to Mr. Gaud's mission to the Nordic countries (probably in the second half of February), and to organize work for the production of position papers on those subjects. Mr. Gaud will attend the meeting.

HMATTORI:ed

IBRD

Distribution: Mr. Douglas Fontein,  
Mr. Richard Dosik (o.r.),  
Mr. Andre Gue,  
Mr. Frank Vibert,  
Mr. Joe Wood,  
Mr. Paul Applegarth  
Mr. K. Georg Gabriel,  
Mr. Eugene Rotberg

cc: Messrs. Cargill, Gaud, Knapp, Broches,  
Nurick, Haq, Adler, Stern



## Some Issues

### 1. Legal status of the subsidy fund -

Do members agree that the subsidy fund should be set up as an account in the Bank, at least for the interim period?

Should the account be in the nature of a trust fund with identification on the assets side, or should it be a general liability of the Bank? The answer has bearing on:

- the fund's administrative set-up;
- the investments of the fund;
- the earnings of the fund and the extent of subsidization.

### 2. Size of the subsidy fund and of Third Window lending -

Mr. Kochman's brief mentions a subsidy fund of 200-250 million dollars permitting a 4% interest subsidy on 1,000 million dollars Third Window lending for the first year, with operations starting when 100 million dollars have become available for the subsidy fund. How realistic are the January 26, 1975 PP&R target figures for individual countries?

3. Assuming that the subsidy fund is to be set up as an account at least for the interim period, how is its income to be calculated and credited? Prorata on gross or net income? Quarterly?

4. In view of the urgency of the problem, arrangements must be made for the quick making of the third window loans. What arrangements do the operational departments have in mind? Third window lending are to be additional to the normal Bank lending.

5. Who should be the borrowers of Third Window lending? The poorer countries would then benefit through larger IDA allocations made possible by the release of IDA resources previously allocated to Third Window borrowers. What arrangements should be made to avoid hardening the terms for those countries?

6. Should Third Window lending be the same as ordinary Bank lending except for the interest rate, or should additional concessionary terms be added (longer maturities, longer grace periods, etc.)?

7. Could Mr. Wood prepare a number of likely scenarios and the impact on the subsidy fund as well as the Bank's earning position?

- different rates of lending
- different mixes of project and program lending
- lengthening of maturities and grace periods.

8. Reconciliation of the Third Window impact on the Bank's financial position and the objectives announced in the Financial Policies Paper.

9. In what currencies should the donors make contributions?  
In what currency should the subsidy be paid? What arrangements should be made for exchange rate fluctuation?

MHattori:ed  
IBRD

January 4, 1975



*Third Window Loans*

See Distribution Below

February 4, 1975

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HMATTORI:ed  
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## Some Issues

### 1. Legal status of the subsidy fund -

Do members agree that the subsidy fund should be set up as an account in the Bank, at least for the interim period?

Should the account be in the nature of a trust fund with identification on the assets side, or should it be a general liability of the Bank? The answer has bearing on:

- the fund's administrative set-up;
- the investments of the fund;
- the earnings of the fund and the extent of subsidization.

### 2. Size of the subsidy fund and of Third Window lending -

Mr. Kochman's brief mentions a subsidy fund of 200-250 million dollars permitting a 4% interest subsidy on 1,000 million dollars Third Window lending for the first year, with operations starting when 100 million dollars have become available for the subsidy fund. How realistic are the January 26, 1975 PP&R target figures for individual countries?

3. Assuming that the subsidy fund is to be set up as an account at least for the interim period, how is its income to be calculated and credited? Prorata on gross or net income? Quarterly?

4. In view of the urgency of the problem, arrangements must be made for the quick making of the third window loans. What arrangements do the operational departments have in mind? Third window lending are to be additional to the normal Bank lending.

5. Who should be the borrowers of Third Window lending? The poorer countries would then benefit through larger IDA allocations made possible by the release of IDA resources previously allocated to Third Window borrowers. What arrangements should be made to avoid hardening the terms for those countries?

6. Should Third Window lending be the same as ordinary Bank lending except for the interest rate, or should additional concessionary terms be added (longer maturities, longer grace periods, etc.)?

7. Could Mr. Wood prepare a number of likely scenarios and the impact on the subsidy fund as well as the Bank's earning position?

- different rates of lending
- different mixes of project and program lending
- lengthening of maturities and grace periods.



8. Reconciliation of the Third Window impact on the Bank's financial position and the objectives announced in the Financial Policies Paper.

9. In what currencies should the donors make contributions? In what currency should the subsidy be paid? What arrangements should be made for exchange rate fluctuation?

MHattori:ed  
IBRD

January 4, 1975

EXCEPRTS FROM DRAFT SUMMARY OF

MR. KOCHMAN'S BRIEFING MEETING

The notes to be left with Kuwait, Saudi Arabia, Abu Dhabi and Qater state the contribution to the interest subsidy fund which the Bank would hope to obtain from each of them. The overall objective should be an interest subsidy fund of \$200-\$250 million, sufficient to support additional lending of about \$1 billion at an interest rate of 4.5%.

Some concern was expressed that, in emphasizing the beneficial impact of Third Window lending on the poorest developing countries, we could be misleading OPEC countries into thinking that Third Window loans would be committed to countries such as Bangladesh, which lack the credit-worthiness needed to qualify for Bank loans even on Third Window terms. It was agreed that countries like Bangladesh would only benefit indirectly, through the "ripple effect" of IDA funds reallocated from those countries which could take on additional Bank lending at intermediate terms. Nevertheless, Mr. McNamara thought it would only confuse OPEC officials to go into such matters at this stage. In any event, the principal thrust of a Third Window should be to help "mainly" the poorest countries or else it would not be worth the effort required to establish a Third Window.

On the question of how the allocation of interest subsidy funds would be controlled, it was agreed that the Bank should seek to manage the fund through informal consultation with the contributors, as had been done in the case of IDA. The OPEC countries may insist on stricter control being exercised by contributors, but Mr. McNamara felt sure that that desire - which could ultimately lead to some form of two-stage approval procedure - would not cause insuperable difficulties.

Three other questions which were raised were treated in a separate "question and answer" note.



*Third Window Loan*

Messrs. K.G. Gabriel and E. Rotberg

February 4, 1975

M. Hattori, Office of V.P., Finance

Third Window Working Group

Although you are not represented on the subject working group, I am sending you copies of the group's papers as I think you should be kept informed.

MHattori:ed  
IBRD

See Below

February 4, 1975

M. Hattori, Office of V.P., Finance

Working Group on the Third Window

With Mr. McNamara's approval, Mr. Cargill has requested Mr. Gaud to visit a number of potential donor countries for exploratory contacts for voluntary contributions to the Third Window. He has decided to set up a Working Group composed of you and myself to:

- provide adequate briefing for Mr. Gaud, and to accelerate work on the immediate issues that need to be resolved prior to his visits; and
- assure that the discussion paper to be presented to the Board reflect the collective technical excellence of the Bank staff.

Attached for your information are:

- (1) Excerpts from Mr. McNamara's statement at the Executive Board meeting of January 28, 1975;
- (2) Mr. Kochman's briefing papers on the Third Window;
- (3) Mr. Fontein's memo of January 30, 1975;
- (4) Excerpts from Press Communiqué of the Development Committee of January 17, 1975; and
- (5) Mr. Wood's memo of January 30, 1975.
- (6) Mr. Fontein's memo of January 28, 1975.

MHattori:ed  
IBRD

Distribution: Mr. Douglas Fontein,  
Mr. Richard Dosik, (o.r.)  
Mr. Andre Gue,  
Mr. Frank Vibert,  
Mr. Joseph Wood,  
Mr. Paul Applegarth

Cleared with and cc: Messrs. Cargill and Gaud

cc: Messrs. Knapp, Broches, Nurick, Haq, Adler, Stern



EXCEPRTS FROM MR. MCNAMARA'S STATEMENT AT THE  
EXECUTIVE BOARD MEETING OF JANUARY 28, 1975

As I mentioned during the discussions of the financial policy paper last week, we have already started work on a discussion paper on the Third Window and we would expect to bring that to you in about sixty days. The paper will discuss a number of the issues relating to the financial aspects of the Third Window including such items as the type and term of lending, and the criteria of country eligibility.

Since this will be a new mechanism and depend on contributions from new donors, the result of the Board discussion, some 60 to 70 days from now, would be guidance to the Bank management on the basis of which negotiations with prospective donors might take place.

In following the Board discussion I would propose to undertake those negotiations after some preliminary discussions I have already initiated. And I would then expect to report back to you upon the prospects for the establishment of the subsidies fund in time to permit you to review a redraft of the Third Window paper early in May, after which we would propose to send it to the Development Committee for its consideration early in June.

EXCEPRTS FROM DRAFT SUMMARY OF

MR. KOCHMAN'S BRIEFING MEETING

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Three other questions which were raised were treated in a separate "question and answer" note.



EXCEPRTS FROM PRESS COMMUNIQUE OF THE

DEVELOPMENT COMMITTEE OF JANUARY 17, 1975=

The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "third window" lending by the Bank on terms intermediate between those of the Bank's regular loans and those of IDA's concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
WASHINGTON, D. C. 20433 U.S.A.



OFFICE OF THE PRESIDENT

February 1, 1975

Third Window

The "Third Window" refers to a new lending facility, which would provide capital to the developing countries on terms intermediate between those now charged by the IBRD and IDA. The Bank would borrow the necessary capital funds and an interest subsidy fund would be established which would be sufficient together with the earnings thereon to reduce the interest rate to borrowers over the life of the loans from  $8\frac{1}{2}\%$  to  $4\%-4\frac{1}{2}\%$ . The proposal now under consideration would involve additional lending in the first year of \$1 billion, committed over a one year period and benefitting mainly the poorest and most seriously affected developing countries.

The reason for considering the creation of a Third Window at this time is the desperate situation faced by many of the Bank's borrowers, especially the poorest among them. Unless a way can be found to provide additional resources to these countries, whose population includes more than a billion people, they face the prospect of negligible or even negative real growth in their per capita incomes for the remainder of this decade. It would be desirable if the extra resources could be supplied on IDA-type terms. But it seems very unlikely that a sufficient volume of highly concessional assistance will be forthcoming in the near future. Hence the concept of a Third Window has attracted attention as an interim measure.

The Third Window was discussed by the Development Committee on January 17th this year. At that meeting, the OPEC representative stated:

" .... some of the countries I represent have already agreed to make a meaningful contribution (to a Third Window in the form of a contribution to the) interest subsidy which will naturally be required in the form of grants."

As a result of this strong expression of interest by several of the OPEC countries, the Third Window proposal was widely endorsed by the other Ministers present and referred to the Board of the World Bank for study and for presentation of a proposal by the Bank within 90 days to the Development Committee for consideration at its next meeting in June.

Clearly, however, a multilateral negotiation of the kind which would be required to bring this scheme into being would take a very long time since, although the concept itself is quite simple, there will be much discussion and negotiation about particular points. Accordingly, as an interim measure the Dutch have suggested that the scheme be started on the basis of voluntary contributions to the subsidy fund. The Dutch proposal



has the support of the Bank management because in view of the urgency of the need of the poorer countries at the present time, it wishes to take advantage of this initiative without delay. The Bank is now engaged in approaching all countries which may be in a position to make such voluntary contributions.

The management would hope to obtain the subsidy fund for the first year by voluntary contributions of between \$100 million and \$150 million from 4 or 5 OPEC countries, including approximately \$25 million from Kuwait, and approximately \$100 million from 4 or 5 OECD nations. In addition, it will be necessary for the Bank not only to borrow the funds required to cover Third Window loans but also in due course to obtain additional capital or reserves in amounts adequate to protect it against the risk of Third Window loans.

It is the view of the Bank's management that an interim scheme would be worthwhile, starting as early as possible in FY76 as soon as contributions totalling at least \$100 million (sufficient to support \$500 million of Third Window commitments) are available. This would have the advantage of giving us experience with the scheme and would provide time to complete discussions with other potential contributors. Accordingly the Bank is now attempting to get support for this scheme on the simplest possible understanding that it will be operated in consultation with the contributing countries pending the formal resolution of the many questions regarding organization and operations which must be settled before a Third Window can be established on a permanent basis.

It would be much appreciated if your Government could consider participation in the proposed Third Window through a contribution to the interest subsidy fund. Mr. Shoaib and Mr. McNamara are looking forward to discussing this matter on their forthcoming visits and will hope to learn at that time what the position of your Government may be.

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The management would hope to obtain the subsidy fund for the first year by voluntary contributions of between \$100 million and \$150 million from 4 or 5 OPEC countries, including approximately \$35 million from Saudi Arabia, and approximately \$100 million from 4 or 5 OECD nations. In addition, it will be necessary for the Bank not only to borrow the funds required to cover Third Window loans but also in due course to obtain additional capital or reserves in amounts adequate to protect it against the risk of Third Window loans.

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The management would hope to obtain the subsidy fund for the first year by voluntary contributions of between \$100 million and \$150 million from 4 or 5 OPEC countries, including approximately \$20 million from the United Arab Emirates, and approximately \$100 million from 4 or 5 OECD nations. In addition, it will be necessary for the Bank not only to borrow the funds required to cover Third Window loans but also in due course to obtain additional capital or reserves in amounts adequate to protect it against the risk of Third Window loans.

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THIRD WINDOW: QUESTIONS AND ANSWERS

Question 1

The figures cited for possible contributions to the interest subsidy fund show OPEC giving more than OECD countries. Is this the Bank's idea of a fair sharing of the burden of concessional assistance?

Answer:

No. The contributions cited are illustrative estimates of what may be obtainable quickly and on a voluntary basis. In view of the urgency of the need, and the capacity of the OPEC countries to respond without the lengthy delay which legislative procedures may require in some of the OECD countries, it has been assumed that 50% (or perhaps even more) of the initial voluntary contributions will come from OPEC countries. This proportion bears no relation to the shares which may later emerge in a negotiated burden-sharing agreement.

Question 2

Will the Bank Group contribute to the interest subsidy fund? If not, why not?

Answer:

At present, no Bank contribution to the interest subsidy fund is proposed. But the Bank will be supporting the Third Window in other important ways. First, it will borrow the additional sums needed to cover disbursements under Third Window loans. Second, it will be carrying the risk of Third Window loans, which like all other Bank loans would represent a potential claim on its capital and reserves.

Question 3

Can you tell us what other countries have pledged to the interest subsidy fund?

Answer:

It is too early to answer this question. Mr. McNamara has only just initiated talks on the subject with OPEC and OECD countries. He may be in a better position to answer this question on his forthcoming visit.

## OFFICE MEMORANDUM

THIRD WINDOW

TO: Mr. I. P. M. Cargill  
through Mr. John H. Adler, Director, P & B

FROM: Joe Wood, P & B *JA*

SUBJECT: Third Window Issues

DATE: January 30, 1975

1. Please find attached three notes prepared by members of the Working Party on the Third Window. They are designed to focus attention on certain critical issues in advance of Mr. Kochman's departure. We have also prepared in draft a one page "fact sheet" on the Third Window which might be suitable for Mr. Kochman to leave with relevant government officials he meets.

2. We have assumed that Mr. Kochman is likely to encounter two key questions on his trip:

(a) What does the Bank expect from us in support of the Third Window? and

(b) How is the Third Window to be organized and controlled?

The first two of the attached notes are addressed to the subject of contributions. Frank Vibert has prepared illustrative distributions of the contributions we might reasonably hope to obtain from particular countries. One set of country contributions represents our minimum target in that it presupposes a \$200 million total subsidy fund, of which the Bank would put up \$50 million. The other set assumes a \$250 million fund with no Bank contribution. The distribution by country is essentially a matter of political judgment which Frank can explain orally, though no one should harbor any illusions that these numbers are more than educated guesses at this point.

3. The note on the terms of Third Window loans tries to indicate what type of lending we can afford with subsidy funds of \$200 million and \$250 million. While the difference in size of subsidy fund is not very large, consideration of the alternative terms possible at the two levels brings out some important issues. Most important, perhaps, is the degree of emphasis (if any) to be given to program lending. As explained in the note, this issue is very much related to the basic rationale we adopt for "selling" a Third Window proposal to contributors.

4. The subject of organization and control is discussed in Doug Fontein's note. In the "fact sheet" we have tentatively described the administrative arrangements as providing for policy guidance to be given through a process of informal consultation with contributing countries. An easy way to describe this to OPEC countries



would be to say that it conforms to the practice followed in the case of IDA. I have no doubt that this form of administrative arrangement would be most attractive from the Bank's point of view, though I wonder whether it will be acceptable to potential OPEC contributors. Perhaps, if this subject is raised, Mr. Kochman could try to find out what elements of control the potential contributors would regard as essential to their participation (e.g., criteria for eligibility; a specific list of eligible countries; loan by loan approval, etc.).

5. The other items mentioned on the "fact sheet" are, I think, self-explanatory. On many of the points we are intentionally vague. During the course of the next week, we hope to have a first rough draft of several sections of the Board memorandum. With that draft as a background, there are several questions, both general and specific, on which we shall be seeking guidance.

Attachments

cc: Messrs. Fontein  
Vibert  
Applegarth  
Taylor  
Hattori  
Rotberg  
Gabriel

JWood/erc

### Third Window Proposal: Principal Features

- Scale: Additional lending of up to \$1 billion at a rate of interest of 4.5 percent is envisaged.
- Duration: One year, initially.
- Recipient Countries: Those poorer developing countries (with per capita income less than \$500 per annum) which can afford additional debt on Third Window terms. The very poorest countries would also benefit through some re-allocation of IDA credits.
- Financing Arrangements: A subsidy fund of \$200 - \$250 million would be sought. Actual loans would be extended by IBRD, which would borrow the necessary additional funds, thereby increasing its FY74-78 borrowing program from \$16.2 billion to approximately \$17 billion.
- Cost-Sharing: Contributions for first year would be on a voluntary basis, not as part of a burden-sharing agreement. Target for contributions from OPEC countries is \$100 - \$150 million. IBRD will contribute 25% of total up to maximum of \$50 million. Contributions could take the form of grants, low interest loans or waiver of interest on existing loans to the IBRD.
- Legal Form: By resolution of its Board of Governors, the IBRD would agree to manage the interest subsidy fund for contributing countries.
- Administrative Arrangements: Policy guidance for operations of the subsidy fund would be obtained through regular informal consultation with contributing countries.
- Effective Date: The Third Window would become effective once contributions to the subsidy fund reach \$100 million.



\$200-250 Million Target

Part I	50	100
OPEC	100	150
Bank	<u>50</u>	<u>-</u>
TOTAL	200	250

	OPEC	
	<u>\$100 m.</u>	<u>\$150 m.</u>
Iran	-	30
Venezuela	25	30
Saudi Arabia	<u>25</u>	<u>30</u>
Total	50	90
Kuwait	20	25
Qatar	)	)
UAE	) 20	) 20
Total	<u>40</u>	<u>45</u>
Algeria	)	)
Iraq	) 10	) 15
Ecuador	)	)
Total	<u>10</u>	<u>15</u>
TOTAL	100	150

	PART I	
	<u>\$50 m.</u>	<u>\$100 m.</u>
U.S.	-	-
Italy	-	-
Germany	5	10
Japan	-	10
U.K.	5	10
France	5	10
Austria	)	)
Belgium	) 5	) 10
Luxembourg	)	)
Canada	10	10
Ireland	-	-
Netherlands	10	10
New Zealand	-	5
Australia	-	5
Denmark	)	)
Finland	)	)
Iceland	) 10	) 20
Norway	)	)
Sweden	)	)
TOTAL	<u>50</u>	<u>100</u>

January 26, 1975  
PP&PR

## OFFICE MEMORANDUM

TO: Mr. Joe Wood, P &amp; B

DATE: January 30, 1975

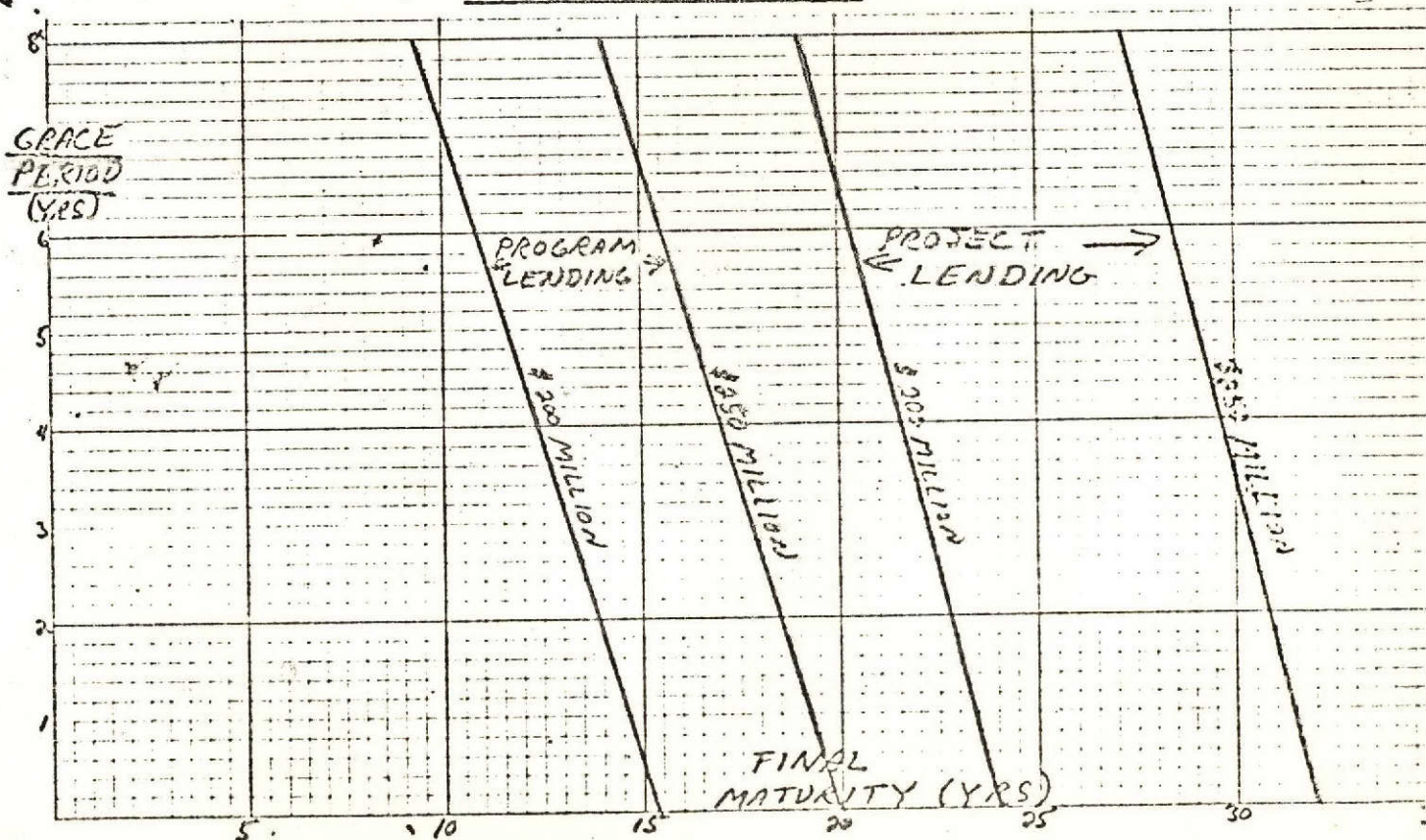
FROM: Paul V. Applegarth, P & B *PVA*SUBJECT: Size of a Third Window Subsidy Fund

1. There are widely different expectations regarding the sort of lending which should take place through a Third Window. The purpose of this note is to indicate what terms and types of lending (i.e. project or program loans) can be financed with subsidy funds of \$200 million (or 20% of the amount committed) and \$250 million (25%). I have not looked into subsidy funds costing a greater percentage of the amounts committed because they would appear to offer insufficient leverage to be attractive to potential contributors.

A. \$200 million Fund (20% of amount committed)

2. If Third Window loans are to have an interest subsidy of 4%, then it would not be possible to subsidize a large volume of program lending on reasonable terms. As the graph below shows, a subsidy rate of 20% would require that a program loan have a final maturity of at most 15 years (with no grace period). With a 3 year grace period the final maturity is reduced to about 13 years. A small proportion of program lending, say 10% of the funds committed, could still be accommodated, but only at the expense of harder terms on the project lending which would constitute the bulk of the loans.

MAXIMUM PERMISSIBLE LOAN TERMS  
AT VARIOUS COST CEILINGS





3. In project lending, a variety of terms are consistent with the 20% subsidy rate. At one extreme, we could extend the grace period to, say, 7 years with a final maturity of about 20 years. Alternatively, we could keep the grace period to 3 years, thereby permitting a final maturity of between 22 and 23 years.

4. There are two points to be made in favor of extending the grace periods. First, as Messrs. Stern and Chenery have argued, delaying amortization payments will assist borrowers in the short-term, giving them more time to adjust to the recent changes in the economic environment. Another way of making the same point is to note that because borrowers' current needs for funds are great, the discount rate they would use to determine the present value of future subsidy payments is almost certainly higher than the return which would be earned through investment of the subsidy fund's assets. Thus, concentrating the interest subsidy payments in the early years of a loan would increase the present value of benefits to borrowers without increasing the proportion of the interest subsidy fund which is needed to subsidize the loan. This argument can in theory be extended to justify a variable interest subsidy, with a higher rate of subsidy applying in the early years of the loan. For example, a subsidy agreement could provide for full payment of interest during the four year grace period of a 20 year loan as long as the interest subsidy were only 3.0% during the amortization period. However, in the interest of keeping our initial proposal as simple as possible, it would probably be better to opt for a longer grace period and a constant degree of interest subsidy.

5. Lengthening maturities also has appeal. It could serve to further differentiate Third Window loans from present Bank and IDA operations, making them an easily recognizable product. Further, with a 20 year final maturity, a Third Window loan could result in annual debt service payments not much lower than a conventional Bank loan with a 30 year maturity. Thus, a country receiving a Third Window loan of that maturity could well question whether it was receiving only important benefits from its access to the Third Window, which it could not as well obtain from normal Bank lending with somewhat extended maturities. With a rate of subsidy equal to 20% of the loan amount committed, maturities can only be extended to about 22 years for loans with a four year grace period. The fact that we only get two additional years of final maturity (from 20 to 22 years) at the expense of a three year contraction in the grace period (from 7 to 4 years) argues against trying to lengthen the final maturity beyond 20 years if we are to make do with a subsidy fund of \$200 million, even if only because the opportunity to lengthen grace periods to seven years could have great appeal to Third Window contributors.

B. \$250 million Fund (25% of amount committed)

6. With a 25% ceiling, both maturities and grace periods can be lengthened, and substantial program lending is possible, if desired. The main argument for program lending in the context of a Third Window is that the current need for concessional resources is urgent, and that only rapidly disbursing loans can address this need. Even with a \$250



million subsidy fund, however, program loans would generally have to have final maturities of less than 20 years. Assuming we would not want to consider loans with final maturities of less than 15 years, the maximum grace period would be between 6 and 7 years.

7. A \$250 million fund would permit project loans with a 30 year final maturity (and a 3-4 year grace period). Alternatively loans with a 7 year grace period and a 27 or 28 year final maturity could also be financed. In either case, the Third Window loans would have terms that are clearly softer in all respects - interest rate, grace period and final maturity - than conventional Bank loans.

#### Summary

8. To make a reasoned choice among the various possible sets of terms for Third Window loans, it is necessary to be clear about the way in which we mean to "sell" this proposal to potential contributors. If we are to present the Third Window as a response to an immediate and urgent need, the case for including a more than minor component of program lending is strengthened. This would in turn tend to favor the larger subsidy fund of \$250 million. If, on the other hand, we try to "sell" the Third Window as a means of facilitating a longer-term adjustment process, then the total volume of resources transferred for investment in productive projects over the next five years becomes the natural focal point. If we adopt this latter perspective, then the choice between a \$200 million and \$250 million fund target depends essentially on one's judgment concerning the relative attractiveness of high leverage (i.e. 5 to 1 rather 4 to 1) and longer-final maturities (20 years rather than 27 or 28 years).





# Record Removal Notice

<b>File Title</b> Bank Administration and Policy - Third Window Loans 1975 / 1977 Correspondence - Volume 1		<b>Barcode No.</b>  1056272		
<b>Document Date</b> January 30, 1975	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Mr. D. Joseph Wood, Programming and Budgeting Department From: Douglas J. Fontein, Legal Department				
<b>Subject / Title</b> Third Window Facility				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Diego Hernández</td><td><b>Date</b> June 5, 2025</td></tr></table>	<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025
<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025			



# Record Removal Notice

<b>File Title</b> Bank Administration and Policy - Third Window Loans 1975 / 1977 Correspondence - Volume 1		<b>Barcode No.</b>  1056272		
<b>Document Date</b> January 28, 1975	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Mr. D. Joseph Wood, Programming and Budgeting Department From: Douglas J. Fontein, Legal Department				
<b>Subject / Title</b> "Third Window" Facility				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Diego Hernández</td><td><b>Date</b> June 5, 2025</td></tr></table>	<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025
<b>Withdrawn by</b> Diego Hernández	<b>Date</b> June 5, 2025			



*✓ Third Window*

*CC-LI-OPEC*

D R A F T

*JAN. 20, 1975*

Third Window  
(Briefing Paper for Mr. Kochman)

*(APPROX.)*

I. Principal Objective of this Mission

To obtain from the countries, in so far as practicable,  
firm or conditional commitments for voluntary contributions to the  
Third Window to permit an early start of operations.

## II. Background

1. The Third Window was conceived as a means of providing additional concessionary financing to LDCs on terms intermediate between those of IBRD loans and those of IDA credits. It is aimed at those poor countries which can raise some but not all of its additional capital requirements commercially. The poorest countries will benefit indirectly by the reallocation of IDA funds previously intended for the beneficiaries of Third Window lending.
2. The basic concept of the Third Window is quite simple. The richer countries would contribute by grants or interest free long term loans into an interest subsidy fund in the World Bank. The World Bank would use the funds it raised through its normal borrowing operations to lend. The income earned by the subsidy fund will be used to reduce the interest paid by the borrower without affecting Bank income and its financial soundness. The risk of such lending would be assumed by the Bank.
3. The concept received warm support at the meeting of the Development Committee, which invited the Executive Board of the World Bank to study the creation of the Third Window. A number of countries, especially the Dutch have indicated that they would be willing to make voluntary contributions to Third Window to enable it to start operations without waiting for its formalization. In view of the urgency of the needs of the poorer countries, the Bank Management desires to take advantage of this initiative and to solicit voluntary contributions from as many countries as possible. Thus the obtaining of firm or conditional commitments from the countries visited to make voluntary contributions to the Third Window in advance of its formalization is the principal objective of this mission.



4. Technical aspects of the Third Window are explained in  
Mr. Wood's memo of January 30, 1975.

*THIRD WINDOW*

EXCEPRTS FROM PRESS COMMUNIQUE OF THE  
DEVELOPMENT COMMITTEE OF JANUARY 17, 1975

The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "third window" lending by the Bank on terms intermediate between those of the Bank's regular loans and those of IDA's concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.



OFFICE MEMORANDUM *THIRD WINDOW*

TO: Mr. Robert S. McNamara

DATE: January 15, 1975

FROM: John H. Adler, Director, P &amp; B

SUBJECT: Third Window

The papers recently submitted to the Development Committee regarding the Third Window indicate that a separate administrative and loan approval procedure might be established to oversee Third Window loans from the Bank. As one paper states, <sup>/1</sup> "the sharing of costs (of a Third Window) among members could be the subject of a special negotiation, and arrangements for the administration of the subsidy fund could take account of the sharing agreed upon." Mr. Isbister has questioned the workability of this separate procedure, and we share his concern.

Members of my staff and I recently met with John Williams, now with the European Investment Bank (EIB). He indicated that one of the major difficulties with the EIB's Third Window was the requirement that the Fonds European de Developpement (FED), which supplied the subsidy funds, also approve the loans after the EIB approved them. Williams blamed this two-approval requirement for the relatively small size of the EIB's Third Window program to date. Therefore, it would appear that any proposal that the DAC set up a procedure to review the Bank's Third Window loans should be approached with caution.

A more complete description of the EIB's Third Window will be included in the package of Back-up notes that we will be giving you by the end of the week.

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<sup>/1</sup> "Suggested Actions In Response to the Current Situation of the Most Seriously Affected Developing Countries," DC/74-8, December 23, 1974, page 5.

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Third Window Issues

The relatively brief treatment of the Third Window idea in the Board paper does not deal with several issues which could come up in discussion. This note takes up the following issues which have been touched upon in our preliminary discussions with the Executive Directors: (a) the form of country contributions to the interest subsidization amount, (b) the feasibility of a Bank contribution to the interest subsidization account, and (c) the "equity backing" required for Third Window schemes of various sizes and duration. Also attached is a brief summary of EIB's experience with its own Third Window scheme.

Form of Country Contributions

In the Board paper, the cost of the Third Window interest subsidy account is shown as a lump sum available at the time loans are committed. This presentation should not imply, however, that funds in the amounts shown must have been received at that time. While it is not recommended that donor countries simply be billed for subsidies at the time interest payments are due (as in the Horowitz Proposal), because of the risks to the Bank and Bank borrowers inherent in having to rely on contributors to honor their commitments throughout the lifetime of loans, i.e. 20 to 35 years, subsidy contributions could take the form of waiver of interest on loans made to the Bank. The only requirement is that the discounted present value of the waived interest payments equal the initial cost figures shown in the Board paper.



Participation in a Third Window scheme through waiver of interest on Bank bonds would be attractive to the Bank, because the transfer of funds to the interest subsidization account could be accomplished simply by the Bank charging itself the full interest due on its bonds, and crediting the Third Window account with the amount waived. Thus, under this procedure, the risk of a donor failing to honor a commitment to the Third Window scheme is eliminated.

#### Bank Group Contributions

We have considered two ways in which the Bank could contribute to an interest subsidization account: (a) by levying a premium rate on loans to higher-income developing countries, and transferring the extra income to the interest subsidization account, or (b) by transferring part of Bank net income to a Third Window account in lieu of a transfer to IDA.

The amounts likely to be raised through a premium rate are modest, at least if the premium rate is charged only to clearly higher-income countries. A 1% premium on, for example, 10% of IBRD lending would finance a 4% subsidy on 2.5% of the IBRD portfolio, if the terms and disbursement patterns of both sets of loans were identical. Of course, in practice, this condition would not be fulfilled. The maturities and grace periods of loans to higher-income countries are likely to be shorter than those of loans to Third Window recipients, reducing the income available for the subsidy. However, to the extent higher-income countries can administer loans more effectively, loans to them may be disbursed faster, yielding more income. Therefore, these opposing factors may cancel each other out. If they do, it is possible to calculate the size of the Third Window which a premium rate to higher-income countries would support. Thus, charging a premium rate on loans in FY76-78

to countries with over \$850 per capita income would support approximately \$260 million of Third Window lending over the same three years.

<u>Countries Charged Premium Rate<sup>/1</sup></u>	<u>Amount of Lending, FY76-78 (\$millions)</u>	<u>Amount of Subsidized Lending Supported, FY76-78<sup>/2</sup> (\$millions)</u>
Per Capita Income Greater Than \$850	1042	260
Per Capita Income Greater Than \$550	3951	988

<sup>/1</sup> Excludes Capital-Surplus Countries.

<sup>/2</sup> Assumes a 4% subsidy.

Bank contributions in lieu of an IDA contribution do not seem feasible. Because of the "drawing last" by IDA on transfers from the IBRD, transfers to IDA cost the Bank considerably less than payments to an interest subsidy plan, which would be disbursed immediately. As a result, if the Bank were to make contributions to a Third Window plan, no funds would be available for transfers to IDA until a number of years after contributions to a Third Window had ceased. Thus, for example, if the Bank were to contribute \$60 million for 5 years for interest subsidy, Bank transfers to IDA would have to be suspended for  $7\frac{1}{2}$  years.

Further, the income gained from stopping transfers to IDA may not be available for grants to a subsidy fund. Assuming lending through a Third Window is additional to the Bank's existing Lending Program, the Bank will need additional equity to back this lending. The Board paper suggests that it may be in the interest of the developing countries that transfers to IDA be stopped and the income retained to help supply this additional equity. Clearly, if the income is given away as grants to a Third Window, it is not also available to assist in building the Bank's equity.



### Reserves Needed for Third Window

A number of suggestions have been made regarding the number of years a Third Window should operate. We have considered the amount of "equity" that three different proposals would require.

Under the assumption that a Third Window would operate for either three or four years, the maximum need for equity backing would occur in the FY83-85 period. If the plan is assumed to operate perpetually, the maximum need for equity backing would not occur for at least 20 years.

Using hypothetical allocation criteria previously agreed upon for purposes of presentation, the need for reserves is as shown in the table below.<sup>/1</sup> Thus, a Third Window operating for four years with commitments of \$1 billion in additional lending a year, would require \$940 million in additional equity.

Commitments per Year	Three-Year Window		Four-Year Window		Perpetual Window	
	<u>\$500MM</u>	<u>\$1 Billion</u>	<u>\$500MM</u>	<u>\$1 Billion</u>	<u>\$500</u>	<u>\$1000</u>
Equity Backing Needed to Back Loans to Least Creditworthy Countries	350	580	470	740	1500	2500
Equity Backing Needed to Support Program as a Whole	<u>75</u>	<u>150</u>	<u>100</u>	<u>200</u>	<u>340</u>	<u>675</u>
Total Equity Backing Needed	<u>425</u>	<u>730</u>	<u>570</u>	<u>940</u>	<u>1850</u>	<u>3200</u>
Equity Backing Accumulated by Halting IDA Transfers During Years of Plan	300	300	400	400	-	-
Additional Equity Backing Needed	125	430	170	540	-	-
Ratio of Total Funds Committed to Total Reserves Needed	3.5:1	4.1:1	3.5:1	4.25:1	-	-

<sup>/1</sup> Dollar amounts are in millions.

THE EUROPEAN INVESTMENT BANK'S  
THIRD WINDOW

The European Investment Bank (EIB) has conducted interest subsidy operations on a small scale for a number of years. These operations are summarized below.

For eight infrastructure and irrigation loans totalling \$53.3 million made to Greece from 1963 to 1967, the EIB provides a 3 per cent interest rebate from its own resources. The effective cost to Greece of these loans thus ranges from 2-7/8 to 4 per cent. The rebate funds are provided by the six original European Economic Community (EEC) countries. This operation resembles the Horowitz plan in that no subsidy fund is established in advance. Rather, the six contributors are billed for their pledges immediately prior to each payment date. We have no information at this time to indicate whether there has been difficulty in obtaining these payments when due, or as to who bears the risk if a contributor defaults on his pledge.

The EIB does operate a fund for its second group of subsidy operations. Under the Yaoundé Convention, the EIB is permitted to make loans to some countries outside the territorial boundaries of Europe. A number of these loans are submitted to the Fonds Européen de Développement (FED) for review. If the FED approves a project, it provides an interest subsidy of 2 - 4 per cent. The subsidy rate chosen depends on the type of project and the borrowing country involved, and to date, has resulted in effective costs to the borrower ranging from 3-5/8 to 6-1/2 per cent.<sup>/1</sup>



Upon approval, the FED pays over to the EIB the total amount of subsidy required over the life of the loan discounted at 6% to the date of the loan agreement. We have little information as to how the EIB operates this fund, or as to how they control fluctuations in disbursement schedules or in the amount of income earned by the fund. However, it appears that the loans are made in the course of the EIB's ordinary operations, rather than by its Special Section.<sup>/2</sup> Thus, the capital for the loans presumably comes from the Bank's own resources, rather than from the FED. Subsidized loans are consolidated in the balance sheet with all loans made in the course of the EIB's ordinary operations.

Only a small number of projects (14), totalling \$52 million, have been approved for FED interest subsidies since they began in 1965. A major operational difficulty has been the two-approval requirement, whereby the FED must approve the project after the EIB has approved it. However, the EIB is currently attempting to implement a plan which will substantially increase amounts lent under the subsidy program. Under this plan, one of a number of issues currently being negotiated with potential borrowers (ACP and MAGHREB countries), the EIB hopes to commit some \$500 million of subsidized loans over the next few years. However, at present, amounts, criteria and administrative structures are still under discussion.

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<sup>/1</sup> Interest subsidies of 3% were granted on the two new loans for which interest subsidies were provided in 1973. The rates of interest before the subsidy were 7-<sup>3</sup>/<sub>8</sub>% and 7-<sup>3</sup>/<sub>4</sub>%, resulting in effective costs to the borrowers (Cameroon and Gabon) of 4-<sup>3</sup>/<sub>8</sub>% and 4-<sup>3</sup>/<sub>4</sub>%, respectively.

<sup>/2</sup> The Special Section is a separate department within EIB focusing on loans to the "Associated African States, Madagascar and Overseas Countries and Territories", which are affiliated with member countries of the EEC. Funds for the Special Section come directly from the FED, rather than from the EIB's own resources.