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WORLD BANK PROGRAM

of

Special Assistance to

Member Countries,

1983-84

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International Bank for Reconstruction and Development
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FOR EXECUTIVE DIRECTORS' MEETING

For consideration on March 21, 1985

R85-59
IDA/R85-30

FROM: Vice President and Secretary

March 7, 1985

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1984

There is attached a memorandum from the President entitled "Special Action Program, Progress Report Through December 1984" dated March 6, 1985.

Questions on this document may be addressed to Mr. Garg (ext. 75343).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
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Directors and Department Heads, Bank and IFC

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

A. W. CLAUSEN
President

March 6, 1985

MEMORANDUM TO THE EXECUTIVE DIRECTORS

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

Introduction

1. The World Bank's Special Action Program (SAP) was launched in February 1983 to increase Bank assistance for member countries trying to cope with the unusually difficult global economic environment of the past few years.1/ The Program comprises financial measures and policy advice to help countries in implementing the adjustment measures needed to restore growth and creditworthiness. It has been highly successful in meeting its objectives, and indeed has surpassed original expectations. This progress report, in updating an earlier report to the Board,2/ estimates that the SAP will have had a total impact on disbursements of about $4.35 billion in 44 countries, has assured implementation of some 260 projects supporting investments totalling $50 billion, and has contributed substantially to the design and implementation of programs of adjustment and policy reform.

2. The innovations under the SAP have been made a normal part of Bank operations and are now included in policies and guidelines to staff. The portfolio in eligible countries has been largely restructured and any further actions required can be addressed under the revised procedures. These will also allow the Bank to assist with the same flexibility countries undertaking adjustment and restructuring in the future. The essential features of the program are now institutionalized in the Bank and, consequently, a formal extension of the program is not proposed. However, the adjustment process is far from complete. Despite a resumption of growth in many developing countries, heavy external debt service and other constraints will continue to exert a toll on their export earnings and investment capacities well into the 1990s. Continued flexibility by the Bank will be required to assist our borrowers in addressing these difficulties. The initiatives introduced under the SAP, increasingly integrated into the regular operations of the Bank, will thus continue to play an important role in the process of adjustment.

Country Coverage

3. Through CY1984, 44 countries have benefitted from the Program (Table 1). Although geographically the SAP countries3/ are concentrated in Sub-Saharan Africa and Latin America, in terms of income levels they are

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1/ "World Bank Program of Special Assistance to Member Countries, 1983-84", R83-22; IDA/R83-10, dated January 28, 1983.

2/ "Special Action Program: Progress Report Through December 1983", R84-25; IDA/R84-7, dated February 7, 1984.

3/ i.e., countries where at least one SAP operation has been approved. The income groups are according to the "Per Capita Income Guidelines for Operational Purposes", SecM84-953, dated November 8, 1984.

Table 1: Countries Assisted Under SAP Through December 31, 1984 a/

	East Africa	West Africa	LAC	EMENA	East Asia	South Asia	
	Burundi	**Benin**	Barbados	**Morocco**	Indonesia	**Bangladesh**	
	Comoros	Burkina Faso	**Brazil**	**Turkey**	**Malaysia**		
	Djibouti	**CAR**	**Chile**	**Yugoslavia**	**Philippines**		
	Ethiopia	**Eq. Guinea**	**Colombia**		**Thailand**		
	Kenya	**Ghana**	Dom. Republic				
	Lesotho	**Ivory Coast**	Ecuador				
	Madagascar	Liberia	**Mexico**				
	Malawi	**Mali**	Panama				
	Mauritius	Mauritania	**Paraguay**				
	Sudan	**Niger**	Peru				
	Zambia	**Nigeria**	**Uruguay**				
	Zimbabwe	**Senegal**					
		Togo					
Total No.	12	13	11	3	4	1	Total= 44
Memo Items							
Total No. of Current Borrowers b/	20	20	23	14	11	7	Total= 95
SAP Beneficiaries as % of Total	60%	65%	48%	21%	36%	14%	46%

a/ The 30 countries assisted under the Program in CY1984 are shown in bold face type.

b/ Countries with lending operations in the FY84-85 programming period.

spread over the entire spectrum: 15 countries belong to group I (1983 per capita GNP of $400 or less), 13 to group II ($401-790), 8 to group III ($791-1,635), and the remaining 8 to groups IV and V ($1,636 or more). Fourteen of the beneficiaries are IDA countries, 8 are blend countries and the remaining 22 are Bank borrowers. As discussed in the interim Progress Report, the country coverage under the Program largely reflects the acuteness of the adjustment problems being faced by different countries and their own response to the crisis. The relatively large country coverage--almost half of the active Bank Group borrowers--is also indicative of the flexibility available under the Program to respond in a graduated manner through a wide variety of instruments--ranging from setting-up of revolving funds to lending for structural adjustment.

Overview of SAP Operations

4. As of December 31, 1984, a total of 281 SAP operations were approved, including 14 new operations and modifications to 267 operations (Table 2). Total SAP commitments amounted to about $3,000 M -- $2,800 M for IBRD and $200 M for IDA.[4]

5. The most significant element in terms of new operations approved under SAP has been the lending for Sector Adjustment. These operations, although similar to SALs in terms of rigour and specificity, are narrower in scope, generally focussing on policy changes and institutional reforms in a single sector. Because of this narrower focus they are easier to prepare and implement and have therefore proven to be more attractive in situations where a broad-based program of policy reform, typically associated with SALs, is either impractical or less urgent. In some cases they have also been used as a follow-up to SALs to deepen the reforms initiated under the SALs. While lending for Sector Adjustment was increasing even before the SAP was launched, the Special Action Program played an important role in stimulating the use of this instrument. As explained in the recent paper on "Bank Lending Instruments"[5], Sector Adjustment Lending is likely to remain an important part of the Bank's operational kit for providing financial and non-financial assistance to its borrowers.

4/ The number of operations and dollar amounts mentioned above are indicative and should be interpreted with caution as there is an unavoidable element of arbitrariness in deciding what should or should not be classified as SAP. To maintain Bank-wide consistency and to avoid unnecessary refinements, in line with the interim Progress Report, the following criteria have been adopted for determining whether or not a particular activity should be classified as SAP:

(a) Only SAP-type actions approved after consideration of the SAP paper by the Board (i.e., February 22, 1983) are included in the SAP; "actions" taken prior to that date are excluded; and

(b) the benchmark for deciding additionality due to SAP is the Bank lending program planned before Board approval of SAP.

5/ "Bank Lending Instruments", December 20, 1984.

Table 2: **Operations Approved Under SAP Through December 31, 1984**

	CY1983 a/		CY1984		Total	
	No.	Commitments ---(US$M)--	No.	Commitments ---(US$M)--	No.	Commitments ---(US$M)--
A. New Operations						
Sector Adjustment Loans	6	1,300	6	725 b/	12	2,025
Structural Adjustment Loans	2	335	-	-	2	335
Sub-total New Operations	8	1,635	6	725	14	2,360
B. Modifications to New/Ongoing Operations c/						
Increased Cost-Sharing/Front-Loading of Disbursements	123	80	54	75	177	155
Revolving Funds	105	n.a.	49	n.a.	154	n.a
Restructuring	31	n.a.	28	n.a.	59	n.a
Financing of Working Capital/ Recurrent Costs	11	335	5	-	16	335
Cancellations d/	-	n.a.	10	n.a.	10	n.a.
Supplementary Loans	4	95	3	45	7	140
Sub-total Modifications	175	510	92	120	267	630
Total SAP Operations	183	2,145	98	845	281	2,990

a/ See interim Progress Report for the list of individual new operations in CY83.

b/ Zambia - Export Rehabilitation/Diversification ($75 M)
Morocco - Industrial Trade Policy Adjustment ($150 M)
Yugoslavia - Fertilizer Sector ($90 M)
Colombia - FEN Power ($200 M)
Uruguay - Agricultural Sector ($60 M)
Philippines - Agricultural Inputs ($150 M)

c/ More than one modification in some cases.

d/ Total Cancellations amounted to $305 M.
Seven operations involved cancellations only.

6. The limited use of Structural Adjustment Lending under SAP can be ascribed to delays and difficulties in designing and implementing the broad-based SAL programs and to the fact that in many cases the SAL operations were already part of the Bank lending programs before launching of the SAP and hence have not been classified as SAP.

7. The commitments of $2,360 M associated with the 14 Sector Adjustment operations and SALs approved under the SAP constitute about 10% of the total Bank/IDA commitments during CYs 1983-84. An additional $2,650 M was committed during the same period for 21 other operations (11 SALs and 10 Sector Adjustment operations) which were in the Bank lending programs before the SAP was launched. In aggregate, the 35 SAP-type operations accounted for about 20% of the total Bank/IDA commitments during CYs 1983-84. This is a sharp increase over the 1980-81 period when such operations represented barely 5% of the total Bank Group commitments. The large increase is clearly indicative of the Bank's willingness and ability to respond quickly to the changing needs and priorities of its borrowers and of the borrowers' determination to adopt appropriate adjustment policies.

8. Increased cost-sharing and/or front-loading of disbursements have been the most commonly used modification under the SAP. In a number of cases this was achieved through restructuring of the existing projects and by deleting/scaling down components whose viability had become questionable since the original appraisals. In many cases, increased cost-sharing was made possible by the sharp appreciation of the US dollar vis-a-vis other currencies, which reduced the overall project costs in dollar terms. Supplementary loans were used in a small number of cases as a last resort in accordance with the Bank's normal policy on cost-overrun financing. Conversely, in several cases, following consultations with the borrowers, the approved loans/credits were fully or partially cancelled since the investments they supported no longer enjoyed the priority accorded to them earlier. The scope for further use of increased cost-sharing on ongoing projects in hitherto eligible countries is limited because: (a) the most-pressing cases for increased cost-sharing have already been addressed under the Program; and (b) in many of the poorest countries, ongoing projects already include very high (90-95%) cost-sharing by IDA and/or co-financiers. For new operations, however, there may be a need in the medium-term for increased cost-sharing by the Bank, including selective financing of local costs in some middle income countries. We plan to do this on a case by case basis when presenting future operations for consideration by the Board.

9. Setting-up of revolving funds has been the other commonly used feature for modifications to both new and ongoing projects. By providing a ready source of finance up-front to financially hard-pressed governments and project entities, these funds are proving to be an important aid to improved project implementation. Following review of their effectiveness last October, revolving funds were adopted as a regular feature for future Bank operations. As of December 31, 1984, some 310 revolving funds with an aggregate advance of over $1.4 billion were in existence, and in the past six months roughly 17% of the total Bank disbursements were made through these funds. Besides helping to accelerate project implementation, the revolving funds are also contributing to greater efficiency in the Bank's

own operations as they help to reduce the need for processing numerous small claims from the borrowers for reimbursements by the Bank. Considering the significant amounts involved, monitoring of the revolving funds will form an important part of project supervision in the future.

10. In a limited number of cases where the availability of current inputs was judged to be the most serious constraint to effective utilization of Bank-financed investments, provisions were also made for financing working capital/recurrent costs -- through increased loan amounts and/or changes in project scope, sometimes as a temporary measure.

11. Table 3 gives a breakdown of the approved SAP operations among the various Regions and country income groups. To provide a better picture of overall "SAP-type" assistance by the Bank, the table also shows parenthetically the same breakdown based on all SAP-type operations (i.e., including operations which in substance are similar to SAP but have not been formally classified as SAP). The Latin America Region (especially Brazil and Mexico) still dominates the program, although not as much as before. The Regional distribution of commitments is, however, considerably more even when the SAP and SAP-type operations are considered together. The number of operations is fairly well distributed among the four income groups. However, the bulk of the SAP-related commitments are for the middle-income countries as a result, of course, of the severe constraints on IDA resources and the fact that both India and China, accounting for a major part of the low-income group, have been largely unaffected by the economic crisis of the past few years.

12. Table 4 shows the sectoral breakdown of the 260 projects selected for modifications (excluding cancellations) under SAP during CY83-84. The SAP projects are concentrated in the Agriculture and Rural Development sector, reflecting the emphasis on high-priority production and/or export-oriented projects. A comparison of the implementation status of the SAP projects with those of all Bank projects under supervision indicates that, typically, the projects accepted for modification under the SAP had fewer non-financial problems (e.g., expected benefits, compliance with loan covenants, institution-building) but significantly above-average financial problems (e.g., project finances, disbursements). The sectoral composition of the SAP projects and the nature of the problems associated with those projects indicate that the criteria and procedures used in selecting projects for assistance under the SAP have been appropriate and effective.

Table 3a: **Regional Distribution of CY83-84 SAP Operations** a/

Region	Operations No.	Operations (%)	Commitments (US$M)	Commitments (%)
E. Africa	31 (35)	11 (12)	150 (530)	5 (10)
W. Africa	43 (45)	15 (15)	400 (680)	13 (12)
EMENA	24 (26)	9 (9)	580 (1,250)	19 (23)
LAC	120 (124)	43 (42)	1,670 (1,870)	56 (34)
E. Asia	58 (61)	21 (21)	160 (990)	6 (18)
S. Asia	5 (6)	2 (2)	30 (170)	1 (3)
Total	281 (297)	100 (100)	2,990 (5,490)	100 (100)

Table 3b : **Breakdown of CY83-84 SAP Operations by Country Income Groups** a/

Per Capita Income Group	Operations No.	Operations (%)	Commitments (US$M)	Commitments (%)
$400 or less	51 (57)	18 (19)	170 (670)	6 (12)
$401 - 790	82 (84)	29 (28)	710 (1,330)	24 (24)
$791 - 1,635	51 (58)	18 (20)	280 (1,330)	9 (24)
$1,636 or more	97 (98)	35 (33)	1,830 (2,160)	61 (39)
Total	281 (297)	100 (100)	2,990 (5,490)	100 (100)

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a/ Figures in parentheses are inclusive of "SAP-type" operations not formally classified as SAP.

Table 4: **Sectoral Composition (%) of Projects Modified Under SAP**

Sector	SAP Projects	Total Portfolio a/ b/ of SAP Countries	Bankwide Portfolio b/
Agr. & Rural Development	45	34	34
IDF	6	9	9
Industry, Oil and Gas	2	8	8
Public Utilities	12	15	16
Social Sectors	11	9	10
Transport	13	14	14
Others	11	11	10
Total	100	100	100
Memo Item:			
Total No. of Projects	260	971	1,756

a/ i.e., 44 countries as per Table 1.
b/ As of June 30, 1984.

Program Impact

13. At a time when most Bank borrowers had been forced to severely curtail public expenditures, resulting in persistent and serious shortages of counterpart funds, the SAP facilitated completion of priority projects by ensuring timely availability of financial resources and by creating a climate of renewed confidence among suppliers and contractors associated with those projects. The fast-disbursing assistance made available under the Program allowed the importation of critical raw materials and spare parts needed for better use of the existing production capacity, and made the adjustment process less painful. The Program also provided a good opportunity for identifying and resolving administrative bottlenecks to efficient project implementation. Finally, the perceived responsiveness and willingness of the Bank to adapt its procedures and practices to the economic difficulties being faced by the member countries had a beneficial effect on the Bank-country policy dialogue as well as a demonstration effect on other donors.

14. A quantitative assessment of the Program impact is complicated due to the uncertainty about what would have happened in the absence of the Program. Given the unusually difficult project implementation environment, the historical performance trends and timetables are of rather limited use and any evaluation of the Program must necessarily be subjective to someextent. The likely impact of the Special Action Program on project implementation and resource transfer, on Bank-country dialogue, and on actions of other donors is discussed below.

Project Implementation and Resource Transfer

15. Detailed status reviews of operations approved/modified under the Program indicate that although there are instances where the assistance measures did not live up to the initial expectations (either because of inadequate appreciation of the problems besetting the project or because of delays in putting the modified arrangements in place), in the vast majority of cases, the assistance under the Program has been a key factor in maintaining the momentum of project implementation. In particular, the implementation data for SAP projects indicates a noticeable improvement in the project finances--the weakest aspect of projects chosen to be included under SAP (para 12). Without assistance under the Program, most projects would have experienced substantial delays due to budgetary constraints and might perhaps in some cases have been left uncompleted. The 260 operations modified under SAP had a total undisbursed balance of $13.3 billion and they support a total investment of about $53 billion. Assuming conservatively that on average the utilization of this investment is advanced by one year, the net incremental benefits accruing to the borrowing countries would be some $5-6 billion. To the extent that the streamlined procedures developed under the SAP have been adopted for "non-SAP" operations, the incremental benefits from the Program should clearly be even greater.

16. Somewhat easier to quantify is the SAP impact on disbursements. Incremental disbursements during FY84-86 due to SAP operations approved through December 31, 1984, are estimated at $4,350 M (Table 5), including about $2,500 M already disbursed as of December 31, 1984. Thus the SAP impact on disbursements is almost double the $2,250 M envisaged initially. Brazil, Mexico, Indonesia, Philippines, Yugoslavia, Nigeria and Morocco are some of the main beneficiaries in this regard as evidenced by the sharply increased monthly disbursements shown in Table 6.

Table 5

Projected Impact of SAP Operations Approved Through December 31, 1984, on IBRD/IDA Disbursements

	FY83 a/	FY84 a/	FY85	FY86	Total
1. SAP Commitments	1,020	1,760	210	-	2,990
2. Disbursements from SAP Commitments	-	820	1,140	640	2,600
3. Increased Disbursements due to SAP Modifications to new/ongoing operations	-	850	750	150	1,750
4. Total SAP Impact on Disbursements (2+3)	-	1,670	1,890	790	4,350
of which IDA	-	50	90	70	210

a/ Actuals.

Table 6: **Average Monthly Disbursements**

Country	Average Monthly Disbursements (US$ M) July '82-June '83	July '83-Dec '84	Percent Increase (%)
Brazil	64	116	81
Mexico	32	48	50
Philippines	28	39	39
Yugoslavia	24	32	33
Morocco	15	19	27
Nigeria	15	19	27
Indonesia	49	60	22
Memo Item:			
All Bank Group Countries	777	922	19

17. A large part of the SAP-related increase in disbursements during FY84-86 is due to advancing of future disbursements because of modifications to ongoing projects. Thus, one consequence of the Program will be a reduction in disbursements beginning in FY87. However, it should be noted, that because of the adverse economic conditions prevailing in many Bank borrowing countries, there has been a general slowdown in the project implementation pace and therefore disbursements on normal Bank operations have experienced significant shortfalls over the past two years or so. In fact, in FY84, the SAP-related increase just about compensated for the shortfall in disbursements on the regular portfolio. In aggregate, therefore, the medium-term outlook for Bank disbursements should not be affected significantly. This does not preclude, however, the possibility that the negative impact on future disbursements could be substantial in a few countries (e.g., Brazil, Mexico and Yugoslavia) depending on the volume and composition of the lending programs in FY1985 and subsequent years.

Impact on Economic and Sector Work and Country Dialogue

18. Given the continuous, and in most cases long-standing relationship and dialogue which the Bank maintains with its borrowers, it is not meaningful to separate the economic and sector work done specifically for or as a result of the SAP. The shift towards developing specific, timebound, monitorable action programs to support structural change over the medium-term has been underway for the past several years and the Special Action Program simply provided an additional impetus in that direction.

19. Economic and sector work addressing pricing and resource mobilization issues, export promotion and debt management had emerged as a major component of the Bank's work programs well before the SAP was launched. The SAP did provide, however, added focus on one important topic, i.e. the public investment reviews. The number and frequency of public investment reviews (including state enterprise investments and, where feasible, the broader public expenditure reviews) has increased

greatly over the last two years. From occasional exercises usually undertaken as part of project identification, they have become much broader macroeconomic exercises, often carried out in relation with IMF-supported programs, and aimed at selective reductions and rationalization of plans made obsolete by the new resource position of most developing countries. In the course of CY83 and CY84, such reviews were conducted, for example, in the Ivory Coast, Morocco, Niger, Nigeria, Senegal, Turkey, and Yugoslavia. In all these cases the objective has been to rationalize expenditure programs not just by screening projects that needed to be postponed or eliminated but more importantly by encouraging institutionalization of sound project selection criteria as well as programming and budgeting systems to strengthen the link between the capital and the current budgets, a most frequent weakness, especially in African countries.

20. The economic and sector work and the policy dialogue have been directed towards more specific areas in those cases where some form of fast disbursing lending has been seen as the appropriate response. Thus, for example, under the Industrial and Trade Policy Adjustment Loan in Morocco, customs duties have been reduced, export licensing requirements eliminated, and procedures for import licensing have been simplified. Similarly, the Agricultural Inputs loan in the Philippines is supporting adjustments in the price of agricultural inputs and major food crops, in addition to improvements in the institutional framework for agricultural policy formulation.

21. Thus, while the Special Action Program has not been the prime force behind the expanded macroeconomic and sectoral policy content of the Bank's economic and sector work, it has certainly instilled a sense of urgency and underscored the need for greater specificity in the analyses and recommendations to underpin the assistance measures approved under the Program.

Impact on Actions of Other Donors

22. Considering the serious financial and economic difficulties being faced by Bank borrowers and the modest size of the Bank's Special Action Program, it was noted at the beginning of the Program that similar efforts would also be necessary by other donors. An important element of the Progam was therefore to persuade other donors to help mobilize additional resources. The expectations have by and large been fulfilled.

23. Both the Asian Development Bank and the Inter-American Development Bank have instituted programs parallel in timing and content to the SAP. A recent IDB staff report notes that their Special Operating Program, which commenced in June 1983, had benefitted 17 countries through a variety of assistance measures applied to 138 projects under implementation, mainly in Agriculture, Transport and Telecommunications. The measures, as in the SAP, included revolving funds, supplementary financing, higher cost-sharing and restructuring of projects. New operations, including supplementary financing to groups of projects, were approved for six countries for a total of close to $800 million. Additionally, under a special Industrial Revitalization Program initiated in 1982, new operations in excess of $900 million for 12 countries were

approved by the end of CY1984. In all, the IDB estimates that disbursements in the 18 months covered by the program were increased by $645 million, which is close to their original objective.

24. The Asian Development Bank, under its Program of Special Assistance, increased cost-sharing by allowing utilization of project savings, and provided supplementary loans and credits for ongoing ADB financed projects in Bangladesh, Philippines, Sri Lanka, and Western Samoa. These ADB loans/credits were similar to an IDA Supplementary Assistance Credit extended to Bangladesh under the SAP, in that they provided additional funding to ease shortages in local cost financing for ongoing projects and were designed to address basic project implementation and budgetary constraints.

25. As regards the African Development Bank (AfDB), although no systematic program paralleling the SAP was undertaken, AfDB has initiated measures whose objectives are similar to those for SAP. Thus, AfDB participated in quick disbursing rehabilitation credits in Ghana (agriculture and transport) and Zambia (copper mining). AfDB also assisted in restructuring a public utility project in Cape Verde, an education project in Benin and a palm oil project in Congo, and supplementary loans were extended to Cape Verde (ship repair yard project), Uganda (gravel road), Guinea (rural and industrial development project), and Tanzania (rice, bridges and water supply projects) to permit a smooth completion of those projects.

26. The efforts by the Bank to attract and help reorient financial flows from other multilateral and bilateral sources has been carried out principally through consultative groups and coordination activities. This has been done with strong support from the Development Assistance Committee of the OECD (notably on the occasion of the DAC meeting of October 1984 in Paris). As a result, more consultative groups have been formed for African countries, and the UNDP, with Bank assistance, has undertaken to revamp the process of Round Tables that were instituted at the end of 1981 to mobilize assistance for the Least Developed Countries. Among the recent and most successful aid group meetings were those held for Ghana and Senegal (in December 1984), both of which have been reported to the Board. These exercises were noteworthy for the wide ranging participation by donors, and even more so for the level of assistance provided in support of adjustment programs presented by the two governments.

Summary and Conclusions

27. The Bank's Special Action Program was initiated at a time when many developing countries were facing unusual economic hardships and prospects for the global economy appeared highly uncertain. Conceived as a two-year program of emergency assistance, the main elements of the Program were:

- expanded lending to support structural adjustment and policy change;

- increased use of revolving funds to facilitate implementation of new and ongoing projects;

- provision of supplementary loans to ensure timely completion of high-priority operations experiencing cost-overruns;

- financing of working capital and/or recurrent inputs to promote better use of existing production facilities;

- restructuring of ongoing projects to delete/scale down components whose viability had become questionable since the original appraisals; and

- increased cost-sharing and/or front-loading of Bank disbursements to maintain the implementation pace.

28. The program has surpassed most expectations. Specifically, the Program has succeeded in:

- accelerating Bank disbursements (about $2,500 M by December 31, 1984) in some 44 countries. The total SAP impact on disbursements is estimated at $4,350 M, almost twice the $2,250 M envisaged initially;

- assuring uninterrupted and/or improved implementation of some 260 high-priority development projects supporting a total investment of over $50 billion;

- substantially contributing to the Bank's policy dialogue with its member countries and strengthening their resolve to implement sound adjustment policies; and

- influencing other donors to implement their own programs of special assistance.

29. The sectoral distribution of the Special Action Program has also accorded with the Bank's priorities, with agriculture enjoying the greatest share, a sector that for a large number of borrowers is a major contributor to foreign exchange earnings. The existence of an IDA resource constraint was a major drawback which resulted in skewing the program in favor of countries that were Bank borrowers, a problem well recognized during discussion of the SAP proposals two years ago.

30. Most of the SAP measures have proved to be important vehicles for providing financial and non-financial assistance to Bank borrowers, and with appropriate adaptations, they have already been absorbed in the Bank's normal operational kit. In particular,

- lending for structural adjustment and sectoral adjustment is now an important part of the Bank's lending activities (para 5);

- revolving funds have been adopted as a regular feature for future Bank operations and detailed guidelines have been issued to staff (OPN 3.07 issued in October 1984);

- staff guidelines have been issued for financing cost-overruns on Bank-financed projects (OPN 3.12 issued in February 1984); and

- revised policies and procedures regarding Bank financing of recurrent costs and/or working capital have been issued (OMS 1.21 issued in January 1985).

31. Several other SAP measures such as increased cost-sharing, front-loading of disbursements and restructuring of ongoing projects also proved to be very helpful devices. The most-pressing cases for such modifications have already been taken care of in the 44 countries benefitting from the Program (para 3). In future, individual situations in these and other countries can be handled on a case by case basis under normal Bank policies and procedures.

32. The Program was approved for a two-year period ending with FY85. Since the main features of the Special Action Program have been incorporated into normal Bank operations, and the bulk of the feasible actions have been taken in eligible countries, we do not recommend formal extension of the Program. Starting in FY86, all of the actions under the SAP can be provided to countries which are starting their adjustment process later, by relying on the revised operational procedures for most measures and applying flexibly--on a case by case basis--the few remaining features such as front-loading disbursements. The same case by case approach will also be used for operations in presently eligible countries, which, for one reason or another, will not have undertaken reform programs by the end of FY85.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 25, 1985

TO: Files

FROM: Office of the Senior Vice President, Operations

SUBJECT: Minutes of Operational Vice Presidents' Meeting of February 20, 1985

Present:

Members: Messrs. Stern (Chairman), Baum, Dherse, Hopper, Husain, Jaycox, Karaosmanoglu, Knox, Ohuchi, Thalwitz, Wapenhans

Others: Messrs. Rajagopalan, de la Renaudiere, Clements, Ruddy, Garg, Ms. Donovan.

Special Action Program: Progress Report through December 1984

1. Mr. Rajagopalan introduced the draft paper, noting that the Special Action Program (SAP) was established to increase the scope for providing Bank assistance to countries addressing unusually difficult global economic problems. The SAP enhanced the Bank's ability to provide quick disbursing funds through a number of mechanisms: front-loading disbursements, financing recurrent costs, providing supplementary financing to enable projects to be completed, providing revolving funds to facilitate more rapid disbursements, and increased cost-sharing. In the course of the last two years, the SAP has benefited some 44 countries at all income-levels.

2. The SAP was introduced as a temporary measure to provide this assistance. The question now is whether the program needs to be continued. The paper recommends that SAP not be continued as a special program since most SAP measures have already been incorporated into normal Bank operations. In particular, Mr. Rajagopalan pointed out that procedures for incorporating front-loading of disbursements, recurrent cost-financing, and supplementary financing, into normal Bank operations have already been elaborated and are in effect. Increased cost-sharing for middle-income countries, which is a feature of the SAP, would no longer be automatic for individual operations. However, in future, increased cost-sharing will be considered on a case-by-case basis when recommended by staff. The scope for restructuring the existing portfolio in SAP eligible countries has been virtually exhausted and, over the past two years, new operations have incorporated SAP features as a matter of course.

3. Some speakers noted that the type of economic reforms which the SAP was designed to support have not yet begun in some countries; these countries have therefore not benefited at all from the SAP. These speakers were concerned that even if such countries undertake the necessary reforms in the near future, the flexible support provided under the SAP would no longer be available. The Chairman reiterated that these countries will not lose any of the benefits which were available under the SAP because, in many cases, these are now normal Bank practices. In cases

where they are not normal Bank practice they can still be made available on a case-by-case basis.

4. A speaker noted that the absorption of the SAP into normal Bank operations could be misconstrued as a signal that we are no longer concerned about increasing disbursements to countries undergoing severe structural reforms. However, the Chairman emphasized that the suspension of the SAP does not indicate any reduction in the Bank's interest in these problems. On the contrary, it reflects the fact that we have adjusted our procedures to ensure that we can address these problems systematically rather than on an exceptional basis. Another speaker pointed out that in countries where the lending program has been quick disbursing in recent years, future disbursement rates will be reduced, reflecting this front-loading. The effects of reductions in future disbursement rates should be carefully evaluated when deciding to front-load disbursements.

5. The paper notes that the SAP encouraged the introduction of similar programs in other development agencies, and persuaded other donors to mobilize additional resources and speed up disbursements. Both the Asian Development Bank and the Inter-American Development Bank have instituted programs parallel in timing and content to the SAP. The paper will be circulated to the Managing Committee before being sent to the Board.

Finance Sub-Committee. No report.

Personnel and Administration Sub-Committee

6. Mr. Hopper reported that Administration is continuing negotiations for special discounts with interested airlines, and that a number of airlines have expressed interest in providing such discounts. It is not envisaged that unit managers would benefit from savings from utilizing airlines which provide discounts. Mr. Hopper noted that some incentive would have to be given to managers to encourage utilization of discounted airlines. Administration has been requested to undertake a survey identifying the costs to staff in time and inconvenience, due to utilizing a restricted list of airlines.

Other Matters

7. Mr. Stern noted that there would be no further approvals, for the time being, for the technical assistance secondment program for IDA only countries. PBD's interpretation of the budget freeze for 1986 includes the technical assistance program, but since that program has no direct relationship to the work program, the reason for this interpretation remains unclear. However, no solution has been found so far and therefore there can be no expansion in the technical assistance program beyond the

level of 25 positions already approved. The matter will be taken up with the Managing Committee.

8. Mr. Stern also reported that some staff seemed to hold the seriously mistaken belief that travel would only be authorized for trips on which projects could be identified and appraised. Allegedly, this misconception is widespread. He doubted that staff could believe such a story or imagine that their managers could impose such a nonsensical rule. Operating units are giving high priority to increase the number of appraisal missions departing before June 30, 1985, in order to strengthen the pipeline and reduce bunching in the next fiscal year. He asked managers to assure that staff understood this objective so that this type of misconception would not gain credence.

Cleared with Mr. Stern

PDonovan:ml

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

cc: JD
JAE

DATE: February 13, 1985

TO: Operational Vice Presidents

FROM: Paula Donovan (SVPOP)

SUBJECT: OVP Meeting of February 20, 1985

1. The attached paper, "Special Action Program: Progress Report through December 1984", will be an agenda item for the next OVP meeting, which will follow the OPSC meeting on "Bank Grant Financing for Research in Human Reproduction and Contraceptive Technology", scheduled for 9:30 a.m. on Wednesday, February 20, in Room E-1208.

2. Following the recent discussions of the Bank's medium-term lending prospects, the Board is eager to review this Special Action Program paper as soon as possible. Therefore, it is scheduled for OVP discussion at this stage although it requires some further work.

Attachment

cc: Messrs. Stern, Asanuma, Baneth, de Azcarate, de la Renaudiere, Rajagopalan, Clements, Ruddy

PDonovan:ml

February 13, 1985

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1984

Introduction

1. The World Bank's Special Action Program (SAP) was launched in February 1983 to increase Bank assistance for member countries trying to cope with the unusually difficult global economic environment of the past few years.1/ The Program comprises financial measures and policy advice to help countries in implementing the adjustment measures needed to restore growth and creditworthiness.

2. An interim report covering progress on the Program through December 1983 was reviewed by the Board on March 1, 1984.2/ The report concluded that in most respects the Program was surpassing the original expectations. In particular, a large number of countries (35) had been assisted under the Program through a significant acceleration in Bank disbursements and through intensified policy dialogue on issues such as export promotion, pricing policies, debt management, resource mobilization, and rationalization of public investment programs.

1/ "World Bank Program of Special Assistance to Member Countries, 1983-84", R83-22; IDA/R83-10, dated January 28, 1983.

2/ "Special Action Program: Progress Report Through December 1983", R84-25; IDA/R84-7, dated February 7, 1984.

3. This report provides an updated assessment of the Program and makes recommendations as to its future. The report is organized in two parts. Part I provides a summary overview of the Program through December 1984, including country coverage, key features of the actions approved and the likely impact particularly on resource transfer, project implementation performance and the Bank/country policy dialogue. Part II reviews briefly the developments in the global economy during 1984 and makes recommendations for the future in light of the updated global outlook and the implementation experience so far.

I. Program Through December 1984

Country Coverage

4. During CY1984, 29 countries were assisted under the Program, of which nine (Benin, Colombia, Djibouti, Ethiopia, Equatorial Guinea, Malaysia, Morocco, Turkey and Uruguay) were new beneficiaries. Thus, together with the 35 countries assisted under the Program in CY83, so far a total of 44 countries have benefitted from the Program (Table 1). Although geographically the SAP countries 3/ are concentrated in Sub-Saharan Africa and Latin America, in terms of income levels they are spread over the entire spectrum: 15 countries belong to group I (1983 per capita GNP of $400 or less), 13 to group II ($401-790),8 to group III ($791-1,635), and the remaining 8 to group IV ($1,636 or more). Fourteen of the

3/ i.e., countries where at least one SAP operation has been approved. The income groups are according to the "Per Capita Income Guidelines for Operational Purposes", SecM84-953, dated November 8, 1984.

Table 1: **Countries Assisted Under SAP Through December 31, 1984** [a]

	East Africa	West Africa	LAC	EMENA	East Asia	South Asia	
	Burundi	**Benin**	Barbados	**Morocco**	Indonesia	**Bangladesh**	
	Comoros	Burkina Faso	**Brazil**	**Turkey**	**Malaysia**		
	Djibouti	**CAR**	**Chile**	**Yugoslavia**	**Philippines**		
	Ethiopia	**Equatorial Guinea**	**Colombia**		**Thailand**		
	Kenya	**Ghana**	Dom. Republic				
	Lesotho	**Ivory Coast**	Ecuador				
	Madagascar	Liberia	**Mexico**				
	Malawi	**Mali**	Panama				
	Mauritius	Mauritania	**Paraguay**				
	Sudan	**Niger**	Peru				
	Zambia	**Nigeria**	**Uruguay**				
	Zimbabwe	**Senegal**					
		Togo					
Total No.	12	13	11	3	4	1	Total= 44
Memo Items							
Total No. of Current Borrowers [b]	20	20	23	14	11	7	Total= 95
SAP Beneficiaries as % of Total	60%	65%	48%	21%	36%	14%	46%

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a/ Countries assisted under the Program in CY1984 are shown in bold face.

b/ Countries with a lending program in the FY84-85 programming period.

beneficiaries are IDA countries, 22 are Bank borrowers, and the remaining 8, blend countries. As discussed in the interim Progress Report, the country coverage under the Program largely reflects the acuteness of the adjustment problems being faced by different countries and their own response to the crisis. The relatively large country coverage--almost half of the currently active Bank Group borrowers--is also indicative of the flexibility available under the Program to respond in a graduated manner through a wide variety of instruments--ranging from setting-up of revolving funds to lending for structural adjustment.

Overview of SAP Operations

5. A total of 93 SAP operations were approved during CY84 including 7 new operations and modifications to 86 new/ongoing operations. Total SAP commitments during the year amounted to about \$950 M.4/ Including the 184 SAP operations approved earlier during CY 1983, a total of 277 operations have been approved so far and the total SAP commitments now amount to \$3,100 M--\$2,900 M for IBRD and \$200 M for IDA (Table 2).

6. The most significant element in terms of new operations approved under SAP has been Sector Adjustment Lending. These operations, although

4/ The number of operations and dollar amounts mentioned above are indicative and should be interpreted with caution as there is an unavoidable element of arbitrariness involved in deciding what should or should not be classified as SAP. To maintain Bank-wide consistency and to avoid unnecessary refinements, in line with the interim Progress Report, the following criteria have been adopted for determining whether or not a particular activity should be classified as SAP:

(a) Only SAP-type actions approved after consideration of the SAP paper by the Board (i.e., February 22, 1983) are included in the SAP; "actions" taken prior to that date are excluded; and

(b) Benchmark for deciding additionality due to SAP is the Bank lending program planned before Board approval of SAP.

Table 2: **Operations Approved Under SAP Through December 31, 1984**

	CY1983 a/		CY1984		Total	
	No.	Commitments (US$M)	No.	Commitments (US$M)	No.	Commitments (US$M)
A. New Operations						
Sector Adjustment Loans	6	1,300	7	815 b/	13	2,115
Structural Adjustment Loans	2	335		-	2	335
Sub-total New Operations	8	1,635	7	815	15	2,450
B. Modifications to New/Ongoing Operations c/						
Increased Cost-Sharing/Front-Loading of Disbursements	124	85	55	80	179	165
Revolving Funds	105	n.a.	49	n.a.	154	n.a
Restructuring	31	n.a.	28	n.a.	59	n.a
Financing of Working Capital/ Recurrent Costs	11	335	5	-	16	335
Cancellations d/	1	n.a.	3	n.a.	4	n.a.
Supplementary Loans	4	95	3	45	7	140
Sub-total Modifications	176	515	86	125	262	640
Total SAP Operations	184	2,150	93	940	277	3,090

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a/ See interim Progress Report for a 1st of individual new oprations in CY83.

b/ Zambia - Export Rehabilitation/Diversification ($75 M)
Morocco - Industrial Trade Policy Adjustment ($150 M)
Yugoslavia - Fertilizer Sector ($90 M)
Colombia - Export Development ($90 M)
Colombia - FEN Power ($200 M)
Uruguay - Agricultural Sector ($60 M)
Philippines - Agricultural Inputs ($150 M)

c/ More than one modification in some cases.

d/ Total Cancellations amounted to $225 M — $5 M in CY1983, and $220 M in CY1984. (Data on cancellations to be confirmed).

similar to SALs in terms of rigour and specificity, are narrower in scope, generally focussing on policy changes and institutional reforms in a single sector. Because of this narrower focus they are easier to prepare and implement and have therefore proven to be more attractive in situations where a broad-based program of policy reform, typically associated with SALs, is either impractical or less urgent. In some cases they have also been used as a follow-up to SALs to deepen the reforms initiated under the SALs. While lending for Sector Adjustment was increasing even before the SAP was launched, the Program played an important role in stimulating the use of this instrument. As explained in the recent paper on "Bank Lending Instruments",5/ the Sector Adjustment Lending is likely to remain an important part of the Bank's operational-kit for providing financial and non-financial assistance to its borrowers.

7. The limited use of Structural Adjustment Lending under SAP can be partially ascribed to delays and difficulties in designing and implementing the broad-based SAL programs and partially to the fact that in many cases the SAL operations were already part of the Bank lending programs before launching of SAP and hence have not been classified as SAP.

8. The commitments of $2,450 M associated with the 15 Sector Adjustment operations and SALs approved under the SAP constitute about 10% of the total Bank/IDA commitments during CYs 1983-84. An additional $2,650 M was committed during the same period for 22 other operations (12 SALs and 10 Sector Adjustment Loans) which, although similar to SAP operations, have not been classified as SAP. In aggregate, the 37 SAP-type operations accounted for about 20% of the total Bank/IDA commitments during CYs 1983-84. This is a sharp increase over the 1980-81 period when such

5/ "Bank Lending Instuments", December 20, 1984.

operations represented barely 5% of the total Bank Group commitments. The large increase is clearly indicative of the Bank's willingness and ability to respond quickly to the changing needs and priorities of its borrowers and of the borrowers' determination to adopt appropriate adjustment policies.

9. Setting-up of revolving funds has been the most commonly used feature for modifications to both new and ongoing projects. By providing a ready source of finance up-front to financially hard-pressed governments and project entities, these funds are proving to be an important aid to improved project implementation. Following review of their effectiveness last October revolving funds were adopted as a regular feature for future Bank operations. As of December 31, 1984, some 310 revolving funds with an aggregate advance of over $1.4 B were in existence, and in the past six months roughly 17 % of the total Bank disbursements were made through these funds. Besides helping to accelerate project implementation, the revolving funds are also contributing to greater efficiency in the Bank's own operations as they help to reduce the need for processing numerous small claims from the borrowers for reimbursements by the Bank.

10. Increased cost-sharing and/or front-loading of disbursements has been the other commonly used modification under the SAP. In a number of cases this was achieved through restructuring of the existing projects and by deleting/scaling down components whose viability had become questionable since the original appraisals. In many cases, increased cost-sharing was made possible by the sharp appreciation of the US dollar vis-a-vis other currencies which reduced the overall project costs in dollar terms. Supplementary loans were used in a small number of cases as a last resort in accordance with the Bank's normal policy on cost-overrun financing.

Conversely, in several cases, following consultations with the borrowers, the approved loans/credits were fully or partially cancelled since the investments they supported no longer enjoyed the priority accorded to them earlier. By now, the most-pressing cases for increased cost-sharing have already been addressed under the Program. Also, in many of the poorest countries, ongoing projects already include very high (90-95%) cost-sharing by IDA and/or co-financiers. Thus, on ongoing projects, the scope for further use of increased cost-sharing is quite limited. For new operations, however, there may be a need in the medium term for increased cost-sharing by the Bank, including selective financing of local costs in some middle income countries. We plan to do this on a case by case basis when presenting future operations for consideration by the Board.

11. In a limited number of cases where the availability of current inputs was judged to be the most serious constraint to effective utilization of Bank-financed investments, provisions were also made for financing working capital/recurrent costs -- through increased loan amounts and/or changes in project scope, sometimes as a temporary measure.

12. Table 3 gives a breakdown of the approved SAP operations among the various Regions and country income groups. To provide a better picture of overall "SAP-type" assistance by the Bank, the table also provides parenthetically the same breakdown based on all SAP-type operations (i.e. including operations which in substance are similar to SAP but have not been formally classified as SAP). The Latin America Region (especially

Table 3a: **Regional Distribution of CY83-84 SAP Operations** a/

Region	Operations No.	Operations (%)	Commitments (US$M)	Commitments (%)
E. Africa	31 (35)	11 (12)	150 (520)	5 (9)
W. Africa	44 (45)	16 (15)	400 (680)	13 (12)
EMENA	19 (21)	7 (7)	580 (1,250)	19 (23)
LAC	120 (125)	43 (43)	1,760 (1,960)	57 (35)
E. Asia	57 (61)	21 (21)	170 (990)	5 (18)
S. Asia	6 (6)	2 (2)	40 (170)	1 (3)
Total	277 (293)	100 (100)	3,100 (5,580)	100 (100)

Table 3b : **Breakdown of CY83-84 SAP Operations by Country Income Groups** a/

Per Capita Income Group	Operations No.	Operations (%)	Commitments (US$M)	Commitments (%)
I. $400 or less	53 (57)	19 (20)	190 (670)	6 (12)
II. $401 - 790	77 (80)	28 (27)	710 (1,330)	23 (24)
III. $791 - 1,635	52 (59)	19 (20)	370 (1,420)	12 (25)
IV. $1,636 or more	95 (97)	34 (33)	1,830 (2,160)	59 (39)
Total	277 (293)	100 (100)	3,100 (5,580)	100 (100)

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a/ Figures in parentheses are inclusive of "SAP-type" operations not formally classified as SAP.

Brazil and Mexico) still dominates the program, although not as much as before. The Regional distribution of commitments is, however, considerably more even when the SAP and SAP-type operations are considered together. The number of operations is fairly well distributed among the four income groups. However, the bulk of the SAP-related commitments are for the middle-income countries as a result, of course, of the severe constraints on IDA resources and the fact that both India and China, accounting for a major part of the low-income group, have been largely unaffected by the economic crisis of the past few years.

Table 4: **Sectoral Composition (%) of Projects Modified Under SAP**

Sector	SAP Projects	Total Portfolio a/ b/ of SAP Countries	Bankwide Portfolio b/
Agr. & Rural Development	45	34	34
IDF	6	9	9
Industry, Oil and Gas	2	8	8
Public Utilities	12	15	16
Social Sectors	11	9	10
Transport	13	14	14
Others	11	11	10
Total	100	100	100
Memo Item:			
Total No. of Projects	262	971	1,756

a/ i.e., 44 countries as per Table 1.
b/ As of June 30, 1984.

13. Table 4 shows the sectoral breakdown of the 262 projects selected for modifications under SAP during CY83-84. The SAP projects are concentrated in the Agriculture and Rural Development sector, reflecting the emphasis on high-priority production and/or export-oriented projects.

A comparison of the implementation status of the SAP projects with those of all Bank projects under supervision indicates that, typically, the projects accepted for modification under the SAP had fewer non-financial problems (e.g., expected benefits, compliance with loan covenants, institution-building) but significantly above-average financial problems (e.g., project finances, disbursements). The sectoral composition of the SAP projects and the nature of the problems associated with those projects indicate that the criteria and procedures used in selecting projects for assistance under the SAP have been appropriate and effective.

Program Impact

14. At a time when most Bank borrowers had been forced to severely curtail public expenditures, resulting in persistent and serious shortages in counterpart funds, the SAP facilitated completion of priority projects by ensuring timely availability of financial resources and by creating a climate of renewed confidence among suppliers and contractors associated with those projects. The fast-disbursing assistance made available under the Program allowed import of critical raw materials and spare parts needed for better use of the existing production capacity, and made the adjustment process less painful. The Program also provided a good opportunity for identifying and resolving administrative bottlenecks to efficient project implementation. Finally, the perceived responsiveness and willingness of the Bank to adapt its procedures and practices to the economic difficulties being faced by the member countries had a beneficial effect on the Bank-country policy dialogue as well as a demonstration effect on other donors.

15. A quantitative assessment of the Program impact is complicated due to the uncertainty about what would have happened in the absence of the Program. Given the unusually difficult project implementation environment, the historical performance trends and timetables are of rather limited use and any evaluation of the Program must necessarily be subjective to some extent. The likely impact of the Special Action Program on project implementation and resource transfer, on Bank-country policy dialogue, and on actions of other donors is discussed below.

Project Implementation and Resoruce Transfer

16. Detailed status reviews of operations approved/modified under the Program indicate that although there are instances where the assistance measures did not live up to the initial expectations (either because of inadequate appreciation of the problems besetting the project or because of delays in putting the modified arrangements in place), in the vast majority of cases, the assistance under the Program has been a key factor in maintaining the momentum of project implementation. Despite the fact that the Program supported some of the most vulnerable projects in the Bank's portfolio, the overall implementation performance (as measured by the PIR ratings) remains quite similar to the rest of the portfolio. In particuar, the implementation data for SAP projects indicates a significant improvement in the project finances -- the weakest aspect of projects chosen to be included under SAP (para 13). Without assistance under the Program most projects would have experienced substantial delays and might perhaps in some cases have been left incomplete. The 262 operations modified under SAP support a total investment of about $53 billion.

Table 5

Projected Impact of SAP Operations Approved Through December 31, 1984, on IBRD/IDA Disbursements

	FY83 a/	FY84 a/	FY85	FY86	FY87	FY88	FY89
	(US$ M)						
SAP Commitments	1,030	1,760	300	-	-	-	-
Gross Disbursements from SAP Commitments	-	820	1,150	680	280	110	40
Net Disbursements from SAP Commitments b/	-	750	850	150	-350	-400	-450
Net Disbursements from Changes to Ongoing Operations	-	850	750	150	-100	-350	-400
Total Net Impact	-	1,600	1,600	300	-450	-750	-850
of which IDA	-	50	70	30	-30	-30	-20

Memo Item: Net Impact on Major Borrowers

	FY83 a/	FY84 a/	FY85	FY86	FY87	FY88	FY89
Nigeria	-	100	80	60	-10	-70	-70
Yugoslavia	-	130	150	40	-70	-70	-80
Brazil	-	690	400	-110	-130	-150	-180
Colombia	-	10	270	40	-10	-110	-70
Mexico	-	200	130	120	-10	-170	-140
Indonesia	-	150	50	-30	-40	-40	-40
Philippines	-	100	110	50	-50	-50	-50

a/ Actuals.

b/ Net of disbursements foregone due to lending substitution by SAP.

Assuming conservatively that on average the utilization of this investment is advanced by one year, the net incremental benefits accruing to the borrowing countries would be some $5-6 billion. To the extent that the streamlined procedures developed under the SAP have been adopted for "non-SAP" operations, the incremental benefits from the Program should clearly be even greater.

17. Somewhat easier to quantify is the SAP impact on resource transfer. Incremental disbursements during FY84-86 due to SAP operations approved through December 31, 1984, are estimated at $3,500 M (Table 5), including about $2,500 M already disbursed as of December 31, 1984. Thus the SAP impact on resource transfer is substantially greater than the $2,250 M envisaged initially. Brazil, Mexico, Indonesia, Philippines, Yugoslavia, Nigeria and Morocco are some of the main beneficiaries in this regard as evidenced by the sharpely increased disbursement rates shown below (Table 6).

Table 6: **Average Monthly Disbursement Rates**

	Average Monthly Disbursemnt Rate (US$M)		Percent Increase (%)
Country	July '82-June '83	July '83-Dec '84	
Brazil	64	116	81
Mexico	32	44	38
Indonesia	42	57	36
Philippines	21	40	90
Morocco	15	19	27
Yuigoslavia	24	32	33
Nigeria	14	19	36

18. A related issue is the SAP impact on Bank disbursements over the medium-term. A large part of the SAP-related disbursements during FY84-86 is due to advancing of the future disbursements -- about $1,000 M because of accelerated disbursements on ongoing projects and about $1,700 M because of substituting in the CY83-84 lending programs the fast disbursing SAP operations in place of the more traditional operations which typically disburse over a 7-8 year period. The remaining $800 M(?) represent the estimated savings which would have been eventually cancelled were it not for the modifications made under SAP. Thus, an inevitable consequence of the Program will be a reduction in the future disbursements by as much as $2,700 M, beginning in FY87. It should be noted, however, that because of the adverse economic conditions prevailing in many Bank borrowers, there has been a general slowdown in the project implementation pace and therefore the disbursements on the normal Bank operations have experienced significant shortfalls over the past two years or so. In fact, in FY84, the SAP-related increase just about compensated for the shortfall in disbursements on the regular portfolio. In aggregate, therefore, the medium-term outlook for Bank disbursements should not be affected significantly. This does not preclude, however, the possibility that the impact on future disbursements could be substantial in a few countries (e.g., Brazil, Mexico and Yugoslavia.)

Impact on Economic and Sector Work and Policy Dialogue

19. Given the continuous, and in most cases long-standing, policy dialogue which the Bank maintains with its borrowers, it is not meaningful to separate the economic and sector work done specifically for or as a result of the SAP. The shift towards developing specific, timebound, monitorable action programs required to promote structural change over the

medium-term has been underway for the past several years and the Special Action Program simply provided an additional impetus in that direction. Similarly, economic and sector work addressing pricing and resource mobilization issues had emerged as a major component of the Bank's work programs well before the SAP was launched. The SAP did provide, however, added focus on two important topics: public investment reviews and debt management. The number and frequency of public investment reviews (including state enterprise investments and, where feasible, the broader public expenditure reviews) has increased greatly over the last two years. From occasional exercises usually undertaken as part of project identification, they have become much broader macroeconomic exercises, often carried out in relation with IMF-supported programs, and aimed at selective reductions and rationalization of plans made obsolete by the new resource position of most developing countries. In the course of CY83 and CY84, such reviews were conducted, for example, in the Ivory Coast, Morocco, Niger, Nigeria, Senegal, Turkey, and Yugoslavia. In all these cases the objective has been to rationalize expenditure programs not just by screening projects that needed to be postponed or eliminated but more importantly by encouraging institutionalization of sound project selection criteria as well as programming and budgeting systems to strengthen the link between the capital and the current budgets, a most frequent weakness, especially in African countries.

20. The Bank has also stepped up work on debt management issues with particular emphasis on Sub-Saharan Africa. Thus, on average 18 missions a year have been fielded in FY82-84, compared to 8 in FY81, and 16 were undertaken in the first half of FY85, covering 28 countries in the

Region. In-house training for officials from African countries has expanded and the Bank has actively participated in Debt Management seminars in Africa (in Dakar and Yaoundi) organized jointly by EDI and the regional central banks of the CFA franc area.

21. The economic and sector work and the policy dialogue have been directed towards more specific areas in those cases where some form of policy-based lending has been seen as the appropriate response. The bulk of such operations, under the SAP, were approved in the course of CY83, notably SALs (or modification of previously planned SALs) for the Ivory Coast, Panama, Togo, and Yugoslavia. Work has continued in preparation of follow-up loans to each of these countries, while sector work in 1983 lead to a number of sector loans approved under the SAP for Brazil, Ghana, Malawi, Mexico and Nigeria. Similarly, the sector loans to Colombia (Export Development Loan and Power Sector Loan), Morocco (Industrial and Trade Policy Loan), and the Philippines (Agricultural Inputs Loan) and Uruguay (Agricultural Sector Loan) approved in CY84 reflected policy agreements on key issues such as foreign exchange administration, interest rates and input subsidies. More specifically:

- Under the Industrial and Trade Policy Adjustment Loan in Morocco, customs duties have been reduced, export licensing requirements eliminated, and procedures for import licensing simplified;

- Although only effective for a very short time, the Agricultural Sector Inputs operation in the Philippines appears to be succeeding at supporting a program of policy and institutional reforms including relaxation of price controls and private sector participation in agricultural marketing.

- The Government of Malawi was able to remove a fertilizer subsidy as a result of a relatively small revolving fund added to an agricultural project; the fund served to expedite timely delivery of fertilizer which in turn permitted significant production increases in the smallholder subsector, obviating the need for a subsidy.

The last example shows that the relatively modest financial contribution of the SAP to IDA countries did not preclude addressing significant policy issues.

22. Thus, while the Special Action Program has not been the prime force behind the expanded macroeconomic and sectoral policy content of the Bank's economic and sector work, it has certainly instilled a sense of urgency and underscored the need for greater specificity in the analyses and recommendations to underpin the assistance measures approved under the Program.

Impact on Actions of Other Donors

23. Considering the serious financial and economic difficulties being faced by Bank borrowers and the modest size of the Bank's Special Assistance program, it was noted at the beginning of the Program that similar efforts would also be necessary by other donors. An important element of the Program was therefore to persuade other donors to help mobilize additional resources. The expectations have by and large been fulfilled.

24. Both the Asian Development Bank and the Inter-American Development Bank have instituted programs parallel in timing and content to the SAP. [A recent staff report to the Board of Directors of the IDB notes that their Special Operating Program, which commenced in June 1983, had

benefitted 17 countries through a variety of assistance measures applied to 138 projects under implementation, mainly in Agriculture, Transport and Telecommunications. The measures, as in the SAP, included revolving funds, supplementary financing, higher cost-sharing and restructuring of projects. New operations, including supplementary financing to groups of projects, were approved for six countries for a total of close to $800 million. Additionally, under a special Industrial Revitalization Program initiated in 1982, new operations in excess of $900 million for 12 countries were approved by the end of CY1984. In all, the IDB estimates that disbursements in the 18 months covered by the program were increased by $645 million, which is close to their original objective.

25. The Asian Development Bank, under its Program of Special Assistance, increased cost-sharing by allowing utilization of project savings, and provided supplementary loans and credits for ongoing ADB financed projects in Bangladesh, Philippines, Sri Lanka, and Western Samoa. These ADB loans/credits were similar to an IDA Supplementary Assistance Credit extended to Bangladesh under the SAP, in that they provided additional funding to ease shortages in local cost financing for ongoing projects and were designed to address basic project implementation and budgetary constraints.]

26. The African Development Bank has expressed interest in the possibility of adapting SAP-type programs and in co-financing policy based loans to Morocco. [Details to be added later].

27. The efforts by the Bank to attract and help reorient financial flows from other multilateral and bilateral sources has been carried out principally through consultative groups and coordination activities. This has been done with strong support from the Development Assistance Committee of the OECD (notably on the occasion of the DAC meeting of October 1984 in Paris). As a result, more consultative groups have been formed for African countries, and the UNDP, with Bank assistance, has undertaken to revamp the process of Round Tables that were instituted at the end of 1981 to mobilize assistance for the Least Developed Countries. Among the recent and most successful aid group meetings were those held for Ghana and Senegal (in December 1984), both of which have been orally reported to the Board. These exercises were noteworthy by the wide range of active participation among aid donors, and even more so by the level of commitments or financing intentions expressed in support of strong policy packages for adjustment and recovery presented by the two governments concerned.

28. Last, but not least, as reported to the Board on February 7, the Bank's initiative to establish a special fund for Sub-Saharan Africa has found a favorable response and the recent donors' meeting in Paris (January 31) resulted in direct and indirect commitments amounting to about $1.1 billion to be used over a three-year period in support of countries undertaking appropriate policy reforms.

29-30. [The impact and implementation difficulties to be illustrated with overviews of SAP actions in a few countries e.g., Brazil, Indonesia, Bangladesh and Ghana].

II. Global Economic Outlook and Conclusions

Global Economic Outlook

31. The current economic outlook is in certain respects more favorable than at the time of the interim Progress Report. Revised estimates indicate that in 1983 the developing countries' GDP grew by an average of 2.3 percent compared to less than one percent indicated in the interim Report. Similarly, the aggregate current account deficit (excluding official transfers) amounted to $53 billion compared to $80 billion estimated earlier. These gains came from increased export volumes, improved terms of trade for the non-oil developing countries, lower real interest rates and, in many cases, domestic reform and restraint. Exports grew in real terms by 6 percent, the main source of increased demand being the United States; real interest rates fell from 16 percent in 1982 to 14 percent in 1983. The picture on capital flows was, however, disappointing, with direct foreign investment and new private loans declining, and ODA rising only marginally. The ratio of outstanding medium- and long-term debt to GDP and the debt service ratio both increased, to 26.7 percent and 23.7 percent respectively.

32. Growth in the industrial countries in 1984 was significantly above the levels of recent years as output surged in the United States (7.0 percent), Japan (5.8 percent) and, to a lesser extent, Europe (2.3 percent).6/ This increased activity was reflected in an expansion of developing countries' exports in real terms of [ ] percent; the expansion

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6/ Figures for 1984 are provisional and incomplete, and will be revised and completed before the paper goes to the Board.

came despite very poor commodity prices, which peaked in the first quarter of 1984, and have now fallen in current dollar terms to the level reached at the bottom of the recession in October 1982. All major commodity groups experienced declines in 1984, but agricultural commodity prices fell the most, with both the Bank's food and non-food indices finishing the year about 20 percent below their end-1983 levels. Nonetheless, the overall improvement in export receipts meant that, although imports remained depressed, for the first time in two years rising exports -- not declining imports -- were chiefly responsible for improving developing countries' current accounts, which showed an aggregate deficit estimated at $40 billion in 1984. Adjustment in external balances, moreover, was combined with improved output growth, as real GDP increased by more than 3.5 percent over 1983. Nonetheless, the continuing negative net transfer from private sources means that much of the growth in GDP is being used for debt service, making it unlikely that per capita consumption will soon recover to the levels it reached before the recent recession.

33. As in 1983, behind these aggregate figures lie a wide variety of regional and country experiences. China and India both performed strongly, growing by 7.0 percent and 5.0 percent, respectively; if these two countries are excluded, developing country GDP growth was only about 3 percent in 1984, with low-income Africa growing by only 2.2 percent, still less than its rate of population growth. Exports grew fastest in low-income Asia, rising by [___] percent in real terms in 1984,

following a [___] percent increase the previous year. Individual country experiences have been even more varied, with much depending on the degree to which serious efforts were made to adjust to the less favorable external environment.

34. As for 1985, the likely slow-down in growth in industrial countries should not prevent growth in developing countries from continuing to increase, to perhaps a little over 4 percent. Nevertheless, that is well below the average of 5.8 percent a year achieved in 1965-80. The current account deficit of the developing countries is expected to be in the range of [$_____ billion]. Regional and country experiences will remain diverse. Low-income Asia is again expected to be the strongest performer. Growth should also continue in Latin American countries following their progress on economic restructuring, although the size of their debt burden still makes them very vulnerable to higher interest rates and to industrial country protectionism. In Sub-Saharan Africa, on the other hand, the droughts and insufficient levels of concessional assistance mean that there is a danger that per-capita GDP will continue to decline unless forceful actions are taken, both domestically and by the international community.7/ [Medium-term perspective to be added based on the paper currently being prepared for DAC].

Conclusions

35. The Bank's Special Assistance Program, initiated at a time when many developing countries faced unusual economic hardships, has met and surpassed most expectations. Conceived as a two-year program of emergency

7/ See Toward Sustained Development in Sub-Saharan Africa, World Bank, 1984.

assistance, it has succeeded in:

- significantly accelerating Bank disbursements (about $2,500 M by December 31, 1984) thereby increasing or at least maintaining the transfer of Bank resources at a critical time;
- substantially contributing to the Bank's policy dialogue with its member countries, strengthening their resolve to implement sound adjustment policies.
- assuring uninterrupted and/or improved implementation of some 260 high-priority development projects supporting a total investment of over $50 B; and
- influencing other donors to implement their own programs of special assistance.

36. With the economic recovery underway in the industrial countries, and slow but steady progress in debt rescheduling for the major debtor countries, there is some abatement in the crisis atmosphere of the past few years. There is also the realization, however, that revival in economic activity in industrial countries will take time to exert its impact on the developing countries. A large number of developing countries are saddled with heavy external debt, declining domestic revenues, and pessimistic prospects for revival in official development assistance as well as private capital flows. Thus, there will be a need for continued austerity and difficult adjustments for the next several years in most countries.

37. Many of the assistance measures under the SAP, particularly Sector Adjustment Lending and revolving funds, have proved to be important vehicles for assisting Bank borrowers, and are now an integral part of the Bank's operational kit. The focus on developing specific action plans for underpinning the adjustment programs have also become a regular feature of the Bank's economic and sector work. Several other SAP measures such as

increased cost-sharing, front-loading of disbursements and restructuring of ongoing projects also proved to be very helpful devices. However, the scope for using these measures in the future is rather limited because the most-pressing cases for such modifications have already been taken care of and the normal Bank procedures and practices provide adequate flexibility for handling individual situations in future on a case by case basis. Thus, there is no need for a formal extension of the Program.

International Bank for Reconstruction and Development
International Development Association

FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on February 28, 1984

R84-25
IDA/R84-7

FROM: Vice President and Secretary

February 7, 1984

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1983

Attached is a copy of a paper entitled "Special Action Program, Progress Report through December 1983" prepared by the Operations Policy Staff.

Questions on this document may be addressed to Mr. Garg (ext. 75566).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1983

Introduction

1. The World Bank's Special Action Program (SAP) was approved by the Executive Directors in February 1983,[1/] to assist member countries in adjusting to adverse economic conditions resulting from a combination of: a severe recession in OECD countries; stagnation in official development assistance and decline in private capital flows; exceptionally high real interest rates; and inadequate adaptation of domestic policies to developments in the world economy during the 1970s. The Program comprises financial measures and policy advice to help countries which are making serious efforts to implement the difficult adjustment measures needed to restore growth. The principal elements of the Program are:

- expanded lending for high priority operations supporting structural adjustment, policy changes, production for exports, fuller use of existing capacity and the maintenance of crucial infrastructure;

- accelerated disbursements under existing and new commitments to support early completion of high-priority projects;

- expanded advisory work by the Bank on the design and implementation of appropriate policies, including the reordering of investment priorities and strategies for debt management; and

- urging other lenders to make similar efforts.

2. The Program was approved for an initial two-year period with the possibility of extension depending upon developments in the global economy and implementation experience with the Program. The increase in IBRD net disbursements attributable to the Program was estimated at $2 billion during FY83-85. The increase in IDA disbursements was expected to be much more modest -- some $250 million during FY83-85 -- reflecting primarily the severely constrained resource availability for IDA.

3. This paper is intended to provide an assessment of the progress during CY83. A second progress report will be submitted to the Executive Directors later in 1984 covering operations through June 1984. The paper

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1/ "World Bank Program of Special Assistance to Member Countries, 1983-84", R83-22; IDA/R83-10, dated January 28, 1983.

is organized in two parts. Part I provides a summary overview of the Program during 1983, including country coverage, key features of the actions approved and the likely program impact. Part II reviews briefly the developments in the global economy during the past year and indicates the actions planned for the future.

I. Program During 1983

Country Coverage

4. As of December 31, 1983, a total of 35 countries have been assisted under the Program -- about one-third of the currently active Bank Group borrowers (Table 1). Three geographical areas -- Sub-Saharan Africa, Latin America and East Asia -- account for all but two of the countries assisted so far. In terms of income levels, the SAP countries[2/] are spread over the entire spectrum: 12 countries belong to group I (1982 per capita GNP of $410 or less), 9 to group II ($411-805), 8 to group III ($806-1,670), and the remaining 6 to group IV ($1,671 or more). Ten of the beneficiaries are IDA countries, 17 are Bank borrowers, and the remaining 8, blend countries. The country coverage under the Program largely reflects the acuteness of the adjustment problems being faced by the different countries and their own response to the crisis, the quality of the Bank-country dialogue, and the constraints on IDA resources.

5. The Special Action Program has focussed on countries that have demonstrated a willingness to cope with the adverse international climate through policies aimed at improving export competitiveness, mobilizing additional domestic resources and adjusting overall expenditures to diminished foreign and domestic resources in a manner least damaging to future growth prospects. The emphasis in evaluating eligibility was accordingly on policy performance. For each country, attention was given to the most critical policies taking into account both the country's stage of development and the magnitude of the problems with which it was confronted. In most countries, this required an initial examination of the full range of relevant policies, including:

(a) exchange rates, interest rates and other key prices, especially in agriculture and energy;

(b) trade and tariff policies;

(c) fiscal and monetary policies, including in particular actions to mobilize savings;

(d) the allocation and use of public sector resources, including the adequacy of recurrent expenditures to maintain and operate existing capital stock, the quality of the public investment program, and the performance of public enterprises; and

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2/ i.e., countries where at least one SAP operation has been approved. The income groups are according to the "Per Capita Income Guidelines for Operational Purposes", SecM83-924, dated September 27, 1983.

Table 1: Countries Assisted Under SAP During CY 83

	East Africa	West Africa	LAC	East Asia	South Asia	EMENA	
	Burundi	CAR	Barbados	Indonesia	Bangladesh	Yugoslavia	
	Comoros	Ghana	Brazil	Philippines			
	Kenya	Ivory Coast	Chile	Thailand			
	Lesotho	Liberia	Dom. Republic				
	Madagascar	Mali	Ecuador				
	Malawi	Mauritania	Mexico				
	Mauritius	Niger	Paraguay				
	Sudan	Nigeria	Panama				
	Zambia	Senegal	Peru				
	Zimbabwe	Togo					
		Upper Volta					
Total No.	10	11	9	3	1	1	Total = 35
Memo Items							
Total No. of Current Borrowers*	20	22	27	12	8	16	Total =105
SAP Beneficiaries as % of Total	50%	50%	33%	25%	12%	6%	33%

* Countries with a lending program in the FY84-88 programming period.

(e) external borrowing policies and the management of external debt.

6. In reviewing policy performance a compromise had to be struck between the need to be expeditious -- an essential attribute of the program -- and the need to lay the foundation for a sustainable adjustment. A large majority of countries considered eligible for the Program were already implementing adjustment policies -- many in the context of IMF agreements -- and were engaged in active policy dialogue with the Bank to reduce major price distortions (e.g., Bangladesh, Brazil, Ghana, Mexico); improve the incentive structure for efficient production by reducing the anti-export bias in the trade and tariff regime (e.g., Jamaica, Panama, Philippines); scale down subsidies and improve the pricing of capital (e.g., Indonesia, Peru); upgrade the performance of public enterprises (e.g., Ivory Coast, Mali, Panama, Senegal, Togo); and correct serious distortions in the public investment programs (e.g., Indonesia, Ivory Coast, Mexico, Philippines).

7. In a number of cases, specific policy understandings were included in assistance packages devised under the Special Action Program. The policy issues varied, of course, according to the type and scope of assistance to be provided under the SAP, and a realistic assessment of the room for maneuverability. For <u>structural adjustment lending</u>, the eligibility required, as in the past, a strong and sustained commitment to implementing a broad range of actions over several years. In practice, this requirement included precisely defined actions in all or most of the areas described in paragraph 6. In most cases, the SALs have complemented the stabilization programs supported by the Fund. For more narrowly focussed <u>sector adjustment loans</u>, actions required were primarily aimed at providing appropriate incentives and enhancing efficiency in a particular sector. But eligibility for such lending also required either the absence of serious macro-economic distortions (e.g., a grossly overvalued exchange rate) or a willingness to take action on such issues. For <u>restructuring</u> of ongoing projects and for increased <u>cost-sharing</u> by the Bank, it was expected that the country would be taking reasonable measures to adjust the investments in the relevant sector/sub-sector to the reduced resource availability and that it would allocate adequate counterpart funds (at the newly agreed levels) to ensure early completion of the high priority projects remaining in the reduced program. Finally, for setting up <u>revolving funds</u> to accelerate disbursements from Bank Loans and Credits, the eligibility required primarily absence/resolution of major non-financial problems in project implementation and, where necessary, streamlining of procedures within the country for release of budgetary funds to the project and for claiming Bank reimbursements.

8. Given the continuous, and in most cases long-standing, policy dialogue which the Bank maintains with its borrowers, the Special Action Program augmented the prospects for specific actions by the borrowers and gave impetus to important policy reforms in several countries. In the case of Ivory Coast, for example, a wide-ranging program was adopted aimed at greater incentives for exports, reduced distortions in pricing policies and

subsidies, and streamlining of the public investment program. In a number of cases, the reforms focussed on pricing policies and interest rate structures (e.g., Mexico, Brazil, Malawi). Agreement to commit adequate counterpart funds for Bank-financed projects, improve project implementation and fulfill project covenants were important conditions for SAP (e.g., Mexico, Philippines).

9. One important element of the Special Action Program has been the reorientation in the Bank's Country Economic and Sector Work (CESW) to provide the analytical underpinning for design of appropriate adjustment programs. The FY84-86 CESW program shows a continuing shift in that respect. It includes, for example: (i) reviews of public investment programs in Argentina, Mexico, Nigeria, Turkey, Philippines and Zambia; (ii) reviewing performance of State Enterprises in Peru, Mali, CAR, Thailand and Sudan; (iii) studies to strengthen development administration and project implementation capability in Bangladesh, Indonesia and Malawi; (iv) studies to increase domestic resource mobilization in Mexico, Liberia, Thailand and Turkey; (v) review of incentives for export diversification in Uruguay, Indonesia and Sudan; and (vi) strengthening debt management capability in Turkey and Thailand.

Overview of SAP Operations during CY83

10. During the ten-month period following launching of SAP in February 83, a total of 184 SAP operations[3/] have been approved. These include:

(a) 12 New operations (US$1,730 M)[4/]

-	2 SALs:	Yugoslavia ($275 M) Panama ($60.2 M)
-	6 Sector Adjust. Loans:	Mexico Export Dev. ($350 M) Brazil Agr. Sector ($303 M) Brazil Ind. Sector ($352 M)

3/ The number of operations mentioned above are indicative and should be interpreted with caution as there is an unavoidable element of arbitrariness involved in deciding what should or should not be classified as SAP. To maintain Bank-wide consistency and to avoid unnecessary refinements, the following criteria have been adopted for determining whether or not a particular activity should be classified as SAP:

(a) Only SAP-type actions approved after consideration of the SAP paper by the Board (i.e., February 22, 1983) are included in the SAP; "actions" taken prior to that date are excluded; and

(b) Benchmark for deciding additionality due to SAP is the most recent lending program established before approval of the SAP paper.

4/ Figures in parenthesis are commitments.

Nigeria Fert. Import ($250 M)
Ghana Reconst. Import ($40 M)
Malawi Fert. Import ($5 M)

- 4 Supplemental Loans: Yugoslavia Hydropower ($61 M)
Barbados Education ($3 M)
Brazil Sao Francisco Irrig.($7.7M)
Brazil Agr. Dev. ($22.8 M)

(b) <u>Modifications to 28 new operations</u>5/

- Increased cost-sharing in 7 projects
- Revolving funds in 13 projects
- Financing of working capital/recurrent costs in 7 projects
- Front-loading of disbursements in 6 projects
- Increased loan amounts in 10 operations ($417 M)

(c) <u>Modifications to 144 ongoing projects</u>6/

- Revolving funds for 92 projects
- Increased cost-sharing in 70 projects
- Front-loading of disbursements in 62 projects
- Restructuring of 31 projects

11. The 40 new operations added or modified because of SAP represent about one-fifth of all Bank Group operations approved during March-December 1983. The SAP-related commitments of $2,150 M associated with these operations constitute about 15% of the total Bank/IDA commitments during the same period. This excludes 14 other SAP-type operations (9 SALs and 5 sector adjustment loans) representing commitments of about US$1,600 M which were approved during March-December 1983 and which have not been classified as SAP because they were part of the lending program before formal initiation of SAP (cf. footnote 3). In aggregate, therefore, the SAP-type operations account for about one-fourth of the Bank/IDA lending program both in terms of number of operations and commitments during March-December 1983.

12. The commitments under SAP are essentially a substitute for more traditional operations planned earlier since the total Bank Group commitments in FY83-84 are expected to be roughly at the same level as in the lending programs established prior to approval of SAP. An analysis of the overall lending program during FY83-84 by Regions, country income groups or sectors does not indicate any major shifts from the patterns in the original lending programs planned before adoption of SAP.

5/ Operations already in the lending program which were modified before Board presentation to include one or more SAP elements.

6/ More than one modification in some projects.

13. The 144 ongoing projects modified under SAP constitute about 8% of the total portfolio of some 1,700 projects currently under supervision, and as of June 30, 1983 had undisbursed loans and credits of about $7.5 billion. More importantly, they support a total investment of about $30 billion, utilization of which should be substantially improved and/or accelerated because of the SAP assistance. Assuming conservatively that on average the utilization of this investment is advanced by one year, the incremental benefits accruing would be some $3-4 billion.

14. Incremental disbursements[7/] during FY84-86 due to CY83 SAP assistance are estimated at $2,500 M -- $2,400 M for IBRD and 100 M for IDA. This increment represents essentially advancing of the post-FY86 disbursements -- about $1,200 M because of accelerated disbursements on ongoing projects and the remainder $1,300 M because of substituting, in the CY83 lending program, the fast-disbursing SAP operations in place of the more traditional operations which typically disburse over a 7-8 year period.

15. Tables 2 and 3 give a breakdown of the approved SAP operations among the various Regions and country income groups. The Latin America Region (especially Brazil and Mexico) dominates the program accounting for about one-half of all operations and about two-thirds of the total commitments and disbursements -- reflecting both the severity of the crisis faced by the Region and its ability to use non-concessionary funds. The number of operations is fairly well distributed among the four income groups. However, practically all SAP-related commitments and disbursements are for the middle-income countries, as a result, of course, of the severe constraints on IDA resources. Per force the SAP operations in the poorer countries have been limited to setting up revolving funds and/or changing cost-sharing arrangements. However, even the higher cost-sharing arrangements are of limited applicability to the poorer countries since in

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7/ Assessing the impact of SAP activities on disbursements is complicated by the need to determine the disbursement levels in the "without" SAP scenario. Given the unusually difficult project implementation environment prevailing in many countries, the historical disbursement profiles may be of rather limited use in the present context. For the analysis in this report the following approach has been used:

(i) For new operations brought into the lending program because of SAP, all disbursements have been attributed to SAP. It is assumed, however, that these operations are fully substituting normal Bank lending which would have disbursed at the rate of 5%, 15%, 20%, 20%, 15%, 15%, 10% in years 1 through 7, respectively. The incremental impact is obtained by netting out the disbursements foregone due to lending substitution by SAP; and

(ii) for projects (new or ongoing) involving modifications because of SAP, separate disbursement estimates have been made "with" and "without" the SAP elements and only the increment has been attributed to SAP.

Table 2: Regional Distribution of CY83 SAP Operations

Region	Operations No.	Operations %	Commitments (US$M)	Commitments %	Estimated Disbursements FY84-86 (US$M)	Estimated Disbursements FY84-86 (%)
E. Africa	21	11	60	3	50	2
W. Africa	29	16	345	16	300	12
LAC	83	45	1,410	65	1,750	70
EMENA	6	3	335	16	200	8
E. Asia	42	23	-	-	180	7
S. Asia	3	2	-	-	20	1
Total	184	100	2,150	100	2,500	100

Table 3: Breakdown of CY83 SAP Operations by Country Income Groups

Per Capita Income Group	Operations No.	Operations %	Commitments (US$M)	Commitments (%)	Estimated Disbursements FY84-86 (US$M)	Estimated Disbursements FY84-86 (%)
I. $410 or less	30	16	60	3	80	3
II. $411 - 805	53	29	35	2	220	9
III. $806 - 1,670	29	16	375	17	350	14
IV. $1,670 or more	72	39	1,680	78	1,850	74
Total	184	100	2,150	100	2,500	100

many cases IDA was already financing a high proportion of the total project costs.

Design of Assistance Measures

16. Since all SAP activities involving new operations go through the normal process of approval by the Executive Directors, the discussion below focuses on the approach used for selection of ongoing projects for assistance under the Special Program and on the design of specific assistance measures for those projects. To provide timely assistance to the borrowers while maintaining the normal high standards of project quality required by the Bank, the provision of SAP assistance was limited to projects with a recent field supervision by the Bank -- typically, no more than six months prior to approval of special assistance. Based on the supervision mission findings, the projects for special assistance were expected to have the following features:

(a) continued high priority in terms of the likely development impact including inter alia satisfactory economic returns, appropriate institutional objectives and feasibility of adequate O&M (including availability of imported spares and consumables) following project completion;

(b) absence of serious non-financial problems (e.g. managerial, technical, political and procurement problems) and compliance with the key loan covenants. Alternatively, an agreed action plan for resolving such problems as a pre-condition for special assistance;

(c) presence of serious gaps in the financing plan with adverse implications for timely project implementation and for the likely development impact; and

(d) likelihood of early project completion (typically over the next 2-3 years) assuming resolution of financial problems and (where appropriate) implementation of the agreed action plan.

17. Design of the assistance measures for the selected projects generally involved:

(a) reviewing the appropriateness of project scope. In particular, possibilities were examined for reducing the scope without serious adverse effects on the remainder of the project. Project components experiencing chronic implementation problems and/or components whose economic viability had deteriorated since appraisal were normally deleted/reduced. Also considered for reduction in scope were projects which were essentially a line of credit, defined in financial terms without specific physical content (e.g. DFC loans) or where physical targets were defined in approximate terms and the exact scope was not essential to the project success. Consideration was also given, on the other hand, to changing the project scope to include any critical components (e.g. spare parts) necessary for satisfactory achievement of the overall project objectives. In total about one-fifth of the 144 ongoing projects assisted under SAP involved changes in project scope;

(b) updating of project implementation schedules and cost estimates taking into account inter alia past implementation experience, any changes in scope deemed desirable, and the implementation of action plans, where appropriate (para. 16 (b)); and

(c) developing a new financing plan based on a realistic assessment of likely contributions by the non-Bank financiers and increased cost-sharing by the Bank during the SAP period. In some cases this meant front-loading the disbursements during the SAP period (with off-setting reductions subsequently) without affecting the overall cost-sharing for the project. In other cases, the savings from restructuring (para 17 (a)) or other causes (e.g. changes in exchange rates) permitted the desired increases in cost-sharing during the SAP period.[8/] Since the impact of front-loading Bank disbursements for the remainder of the SAP period will diminish rapidly during FY85, we plan to accept proposals for increased cost-sharing on eligible expenditures up to FY86. Supplementary loans and credits were considered, as an exceptional measure, in the absence of other options for assuring satisfactory project completion. In about two-thirds of the cases, the revised cost-sharing arrangements comprised financing a part of the local costs during the SAP period. In determining the share of costs to be financed by the Bank, it was ensured that the procurement arrangements complied with the Bank guidelines.

18. Table 4 shows the sectoral breakdown of the 144 ongoing projects selected for assistance under SAP during CY83. The SAP projects are concentrated in the Agriculture and Rural Development sector, reflecting the emphasis on high-priority production and/or export-oriented projects. A comparison of the implementation status of the SAP projects with those of

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8/ Any remaining savings were to be cancelled; however, to strengthen the willingness of governments to cancel/restructure projects which were no longer consistent with the country's investment priorities, the savings on IDA credits were permitted to be used for recommitment in the same country provided the savings were the result of a deliberate restructuring of the investment program. Extension of closing dates in order to utilize the savings was not permitted; also, the project objectives could not be reformulated in order to use up the savings.

all Bank projects under supervision indicates that, on the whole, the SAP projects had fewer non-financial problems (e.g., management performance, expected benefits, compliance with loan covenants, institution-building) but significantly above-average financial problems (e.g., project finances, disbursements). The sectoral composition of the SAP projects and the nature of problems associated with those projects indicate the overall effectiveness of the criteria and procedures used in selecting projects for assistance under the SAP.

Table 4: Sectoral Composition (%) of Ongoing Projects Modified Under CY83 SAP

Sector	SAP Projects	Total Portfolio of SAP Countries a/ b/	Bankwide Portfolio b/
Agr. & Rural Development	51	35	35
IDF	7	10	9
Industry, Oil and Gas	1	7	8
Public Utilities	11	13	16
Social Sectors	16	15	14
Transport	12	13	13
Others	2	7	5
Total	100	100	100
Memo Item			
Total No. of Projects	144	791	1,720

a/ i.e. 35 countries as per Table 1.
b/ As of June 30, 1983.

Program Impact

19. The Special Action Program has been in effect for only ten months. About three-quarters of all SAP approvals are in fact less than six months old and it is too early to make any definitive judgements on the overall impact of the program. Disbursement data for the first half of FY84 indicate nevertheless that there has been a significant increase in disbursements on a number of SAP projects. The SAP-related incremental disbursements during July-December 1983 are estimated at about $650 M -- $350 M on new commitments under SAP and $300 M on ongoing projects modified under SAP. About two-thirds of the incremental disbursements due to SAP have been in Brazil where the monthly disbursements during the past six months averaged $131 M compared to $58 M for the same period a year ago.

20. The real impact was, however, much larger than the actual resource transfer, since the Program helped to : (a) keep on stream

144 ongoing projects with costs totalling about $30 billion, (b) strengthen the countries in implementing sound economic policies and reforms while encouraging others to introduce reforms, (c) improve the willingness of borrowers to commit sufficient local currency for high priority development projects and ensure faster project implementation, and (d) provide an intensified focus on such aspects as export promotion, debt management, resource mobilization and pricing policies, in the Bank's economic and sector work programs.

21. Early feedback from some of the SAP operations in Brazil, Nigeria, Ivory Coast, Ghana and Niger indicates significant improvement in project implementation because of accelerated resource transfer and/or improved policy dialogue. The operations under the Program have also provided further support to the desirable patterns of lending discussed in the Progress Report on Sub-Saharan Africa[9]/ which emphasized agricultural production and the rehabiliation and maintenance of infrastructure.

22. Establishment of revolving funds, an increasingly common feature of Bank operations even before the SAP, are also proving to be helpful in improving project implementation by providing a ready source of finance up-front. The generally positive experience so far with the revolving funds suggests that they should be adopted as a regular feature in future Bank projects.

23. The export development operations approved in CY83 as part of the SAP generally have not started up as rapidly as envisaged at appraisal. A variety of reasons are responsible for slow development of these projects: smaller than expected growth in the economies of the borrowers, delays in the required legislative approvals, institutional weaknesses and, perhaps most importantly, a slower than expected adjustment by exporters to market rate credit operations denominated in foreign exchange or fully pegged to a major currency, as opposed to the traditionally subsidized local currency credit support that Governments had provided for exports. Given the Bank's policy dialogue on export development with the borrowing countries, it is expected that, as their economies gradually recover, the incentives will be stronger for further institutional and administrative improvements, as well as for greater reliance by exporters on foreign exchange finance for the imported inputs. Therefore, disbursement performance under these loans is expected to improve in 1984.

24. In approving the Program, the Executive Directors had noted that active participation by other donors would be needed to achieve the maximum impact. Since approval of SAP, the Bank has intensified its efforts to persuade other donors to introduce similar approaches. For example:

- At Consultative Group sessions, and in its contacts before and after CGs, the bank has documented the

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9/ "Sub-Saharan Africa: Progress Report on Development Prospects and Programs", R83-229, dated July 8, 1983.

special needs of the borrowers and the policy adjustments being undertaken;

- In the Development Assistance Committee of the OECD the Bank has emphasized the importance of parallel actions on several occasions with key representatives and leaders of OECD donor organizations. The DAC itself highlighted the importance of such action by urging bilateral donors to implement their own "program of special assistance" modeled after that of the Bank;

- In various discussions with the Bank, EEC has also expressed great interest in SAP as a possible guide to their own operations; and

- In its regular consultations with regional development banks, bilateral aid agencies and private banks, Bank officials have stressed the importance of mobilizing full support for high priority programs and projects in countries implementing appropriate adjustment policies.

25. The response by donors has been generally positive as many have been prepared to provide more fast-disbursing assistance in support of Bank and Fund programs, for example, in Sudan and Ghana. This has been especially important in Africa where constraints on IDA have limited the Bank's ability to meet as large a share of the urgent requirements as desirable. ADB and IDB also have started Special Programs of their own, similar in spirit to that of the Bank.

II. Global Economic Outlook and the Future Program

Global Economic Outlook

26. Economic conditions in the industrial countries were slightly better in 1983 than had been envisioned a year ago, mostly due to a stronger than expected recovery in the United States. GDP growth in industrial countres in 1983 is now estimated at about 2%, up from 1.5% projected earlier. As a result, the prices of developing countries' non-oil primary exports have increased at a slightly faster rate than expected. Oil-importing developing countries also benefitted from the drop in petroleum prices. The oil-exporting developing countries fared much worse, however, because of the sharp decline in oil export revenues. According to the preliminary indications, the private lending to developing countries during 1983 reached the level expected at the beginning of the year. However, because of lower export growth and continued high interest rates which necessitated restrictive policies, developing countries' GDP growth is now estimated to have been below 1% compared to about 3% anticipated a year ago. The recession has therefore had a more severe impact on developing countries than had been anticipated, both in reducing growth rates through 1983 and in breaking developing countries' momentum for future growth.

27. While the economic recovery in industrial countries holds the prospect of some revival in exports, there is very little optimism for a sharp recovery in ODA transfers or in access to foreign private capital markets. Financing therefore will continue to be constrained. It is estimated that the current account deficit of developing countries will remain close to $80 billion in 1984. Of this total, lending from private sources is estimated to be only $21 billion, a large part of which will be associated with rescheduling of both public and private debt. It is likely that private lenders, viewing the moderate recovery in developing countries and uncertain prospects for improvement in creditworthiness, will remain cautious. Net resource transfer from private loans will, therefore, continue to be negative -- about $17 billion in 1984 and a similar amount in 1985.

28. The servicing of external debt will continue to exert its toll on the export receipts of developing countries well into the late eighties. Current estimates show that the overall debt service ratio may decline from 21 percent in 1983 to about 19 percent in 1985. However, the current round of debt reschedulings will result in increasing payments beyond 1986, and there are sharp differences in the debt service ratios of individual borrowers in Latin America and Sub-Saharan Africa. Many developing countries continue to have serious internal budgetary problems deriving from the deterioration in export income and slower overall economic growth. In Latin America the global recession led to widespread bankruptcies of private firms and its impact will continue to be felt in lower revenues for some years. On the expenditure side, there is a concurrent pent-up demand which needs to be satisfied. Public investment programs and many categories of development expenditure had to be sharply reduced while recurrent expenditures for the maintenance of economic and social infrastructure have slowed down. It seems unlikely that the recovery in exports or overall economic growth will be sufficient to generate the foreign exchange earnings and government revenues needed to finance priority expenditures over the next two years.

29. It is therefore more important than ever that official lenders maintain and increase the flow of capital to developing countries. Increased official lending would ease the financial constraints and increase private lenders' confidence in a return to creditworthiness. Failure to provide increased resources at this crucial juncture, on the other hand, could further undermine the confidence of the private lenders and worsen the crisis with serious consequences for the developing countries and the world as a whole.

30 It is also important that the Bank member countries continue to benefit from the assistance provided under the Special Action Program. The Bank will continue to implement the Special Action Program in a pragmatic manner, examining country and project eligibility on the basis of criteria that ensure the maximum effectiveness of the resource transfer and the achievement of necessary policy reforms. The criteria for implementing the Program have proved to be appropriate and no change is proposed.

Future Program

31. Additional SAP activities are under consideration for about 30

countries of which about half will be new to the program, thus raising the total number of SAP beneficiaries to about 50 -- about one-half of all the active Bank Group borrowers. No significant change is expected either in terms of the geographical areas or the country income groups of the beneficiaries.

32. A total of about 130 SAP operations are tentatively planned at this stage for the next 18 months, including about 20 new operations and modifications to about 110 new or ongoing operations. The total commitments for these operations are expected to be around $2,000 M. Not all of these operations may, of course, materialize. Nevertheless, the total SAP commitments through June 1985 are likely to reach about $3,500 M of which about $250 M would be for IDA. The increase in disbursements attributable to the Program is now estimated at $3,800 M of which $300 M would be for IDA (Table 6). Thus the aggregate impact on resource transfer is expected to be significantly greater than that envisaged earlier.

<u>Financial Implications of the Program</u>

33. The effects of the SAP on disbursements should not require any financial response at the present time. While it is expected that the SAP will increase IBRD disbursements in FY84 by $1.6 billion over what they would have been without the program, the current disbursement projections already incorporate a $1.0 billion increase due to the SAP. Moreover, economic conditions and appreciation of the dollar have been operating to reduce disbursements from projects not assisted under the SAP. Consequently, it is expected that total disbursements in FY84 will be at about the level projected in the FY84 budget.

34. The net impact of the program may be more pronounced in FY85-86 if economic conditions improve so that disbursements from the rest of the portfolio return to more normal patterns. An increase in the disbursement projections over the next few years would reduce the ratio of liquid asset holdings to future cash requirements, which is now projected to be 43.7% at the end of FY84. Those increases are unlikely to be of such a magnitude, however, as to trigger additional borrowing in order to keep the liquidity ratio from falling below 40%. Nevertheless, the impact of the SAP on disbursements will be an important element in the disbursement projections that will be made in the FY85 budget presentation.

<u>Conclusions</u>

35. The experience so far with the Special Action Program demonstrates that it has by and large succeeded in reaching its objective of assisting a wide spectrum of countries (35) through a significant acceleration in Bank disbursements (about $650 M during the first half of FY84). The real impact was, however, much larger than the actual resource transfer, since the Program helped to: (a) keep on stream 144 ongoing projects with costs totalling about $30 billion, (b) strengthen the countries in implementing sound economic policies and reforms while encouraging others to introduce reforms as a condition for the resource transfer, (c) improve the willingness of borrowers to commit sufficient local currency for high priority development projects and ensure faster project implementation, (d) provide an intensified focus on such aspects as

Table 6: Projected Impact of SAP on IBRD/IDA Disbursements

IBRD	FY83 1/	FY84	FY85	FY86	Total
	(US$ M)				
SAP Commitments	935	1,600	715	-	3,250
Gross Disb. from SAP Commitments	-	1,200	1,300	500	3,000
Net Disb. from SAP Commitments 2/	-	1,000	900	-	1,900
Net Disb. from changes to ongoing operations	-	600	600	400	1,600
Total Net Impact	-	1,600	1,500	400	3,500
IDA					
SAP Commitments	85	100	65	-	250
Gross Disb. from SAP Commitments	-	50	70	80	200
Net Disb. from SAP Commitments 2/	-	45	50	40	135
Net Disb. from changes to ongoing operations	-	75	50	40	165
Total Net Impact	-	120	100	80	300

1/ Actuals.
2/ Net of disbursements foregone due to lending substitution by SAP.

export promotion, debt management, resource mobilization and pricing policies, in the Bank's economic and sector work programs, and influence other donors to implement their own programs of special assistance.

36. The sectoral distribution of the Special Action Program has also accorded with the Bank's priorities, with agriculture enjoying the greatest share, a sector that for a large number of borrowers is a major contributor to foreign exchange earnings. The existence of an IDA resource constraint was a major drawback which resulted in skewing the program in favor of countries that were Bank borrowers, a problem well recognized during discussion of the SAP proposals a year ago.

37. There is considerable evidence that the revival in economic activity in the industrialized countries will take time to exert its impact on the exports of many developing countries. A large number of the developing countries are also saddled with heavy external debt repayment schedules, declining domestic revenues and pessimistic prospects for a revival in official development assistance as well as foreign private capital flows. Many of these countries are nevertheless implementing courageous reforms to improve resource allocation and increase export competitiveness. The support they receive from the Special Action Program assists this process.

38. We will proceed with the Special Action Program and provide the Executive Directors with a new assessment later in 1984, covering operations through June 1984. By that time a more definitive judgement on the program impact as regards disbursements, project implementation performance and policy reform will be possible. The report will also provide an opportunity to consider whether the program should be extended for an additional year. President's Reports for loans to countries within the Program will continue to summarize the nature of the special actions being taken.

Operations Policy Staff
February 6, 1984

International Bank for Reconstruction and Development
International Development Association

File

FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on
~~February 28, 1984~~
March 1, 1984

R84-25
IDA/R84-7

FROM: Vice President and Secretary

February 7, 1984

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1983

Attached is a copy of a paper entitled "Special Action Program, Progress Report through December 1983" prepared by the Operations Policy Staff.

Questions on this document may be addressed to Mr. Garg (ext. 75566).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

SPECIAL ACTION PROGRAM

PROGRESS REPORT THROUGH DECEMBER 1983

Introduction

1. The World Bank's Special Action Program (SAP) was approved by the Executive Directors in February 1983,[1] to assist member countries in adjusting to adverse economic conditions resulting from a combination of: a severe recession in OECD countries; stagnation in official development assistance and decline in private capital flows; exceptionally high real interest rates; and inadequate adaptation of domestic policies to developments in the world economy during the 1970s. The Program comprises financial measures and policy advice to help countries which are making serious efforts to implement the difficult adjustment measures needed to restore growth. The principal elements of the Program are:

- expanded lending for high priority operations supporting structural adjustment, policy changes, production for exports, fuller use of existing capacity and the maintenance of crucial infrastructure;

- accelerated disbursements under existing and new commitments to support early completion of high-priority projects;

- expanded advisory work by the Bank on the design and implementation of appropriate policies, including the reordering of investment priorities and strategies for debt management; and

- urging other lenders to make similar efforts.

2. The Program was approved for an initial two-year period with the possibility of extension depending upon developments in the global economy and implementation experience with the Program. The increase in IBRD net disbursements attributable to the Program was estimated at $2 billion during FY83-85. The increase in IDA disbursements was expected to be much more modest -- some $250 million during FY83-85 -- reflecting primarily the severely constrained resource availability for IDA.

3. This paper is intended to provide an assessment of the progress during CY83. A second progress report will be submitted to the Executive Directors later in 1984 covering operations through June 1984. The paper

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1/ "World Bank Program of Special Assistance to Member Countries, 1983-84", R83-22; IDA/R83-10, dated January 28, 1983.

is organized in two parts. Part I provides a summary overview of the Program during 1983, including country coverage, key features of the actions approved and the likely program impact. Part II reviews briefly the developments in the global economy during the past year and indicates the actions planned for the future.

I. Program During 1983

Country Coverage

4. As of December 31, 1983, a total of 35 countries have been assisted under the Program -- about one-third of the currently active Bank Group borrowers (Table 1). Three geographical areas -- Sub-Saharan Africa, Latin America and East Asia -- account for all but two of the countries assisted so far. In terms of income levels, the SAP countries[2/] are spread over the entire spectrum: 12 countries belong to group I (1982 per capita GNP of $410 or less), 9 to group II ($411-805), 8 to group III ($806-1,670), and the remaining 6 to group IV ($1,671 or more). Ten of the beneficiaries are IDA countries, 17 are Bank borrowers, and the remaining 8, blend countries. The country coverage under the Program largely reflects the acuteness of the adjustment problems being faced by the different countries and their own response to the crisis, the quality of the Bank-country dialogue, and the constraints on IDA resources.

5. The Special Action Program has focussed on countries that have demonstrated a willingness to cope with the adverse international climate through policies aimed at improving export competitiveness, mobilizing additional domestic resources and adjusting overall expenditures to diminished foreign and domestic resources in a manner least damaging to future growth prospects. The emphasis in evaluating eligibility was accordingly on policy performance. For each country, attention was given to the most critical policies taking into account both the country's stage of development and the magnitude of the problems with which it was confronted. In most countries, this required an initial examination of the full range of relevant policies, including:

(a) exchange rates, interest rates and other key prices, especially in agriculture and energy;

(b) trade and tariff policies;

(c) fiscal and monetary policies, including in particular actions to mobilize savings;

(d) the allocation and use of public sector resources, including the adequacy of recurrent expenditures to maintain and operate existing capital stock, the quality of the public investment program, and the performance of public enterprises; and

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2/ i.e., countries where at least one SAP operation has been approved. The income groups are according to the "Per Capita Income Guidelines for Operational Purposes", SecM83-924, dated September 27, 1983.

Table 1: Countries Assisted Under SAP During CY 83

	East Africa	West Africa	LAC	East Asia	South Asia	EMENA	
	Burundi	CAR	Barbados	Indonesia	Bangladesh	Yugoslavia	
	Comoros	Ghana	Brazil	Philippines			
	Kenya	Ivory Coast	Chile	Thailand			
	Lesotho	Liberia	Dom. Republic				
	Madagascar	Mali	Ecuador				
	Malawi	Mauritania	Mexico				
	Mauritius	Niger	Paraguay				
	Sudan	Nigeria	Panama				
	Zambia	Senegal	Peru				
	Zimbabwe	Togo					
		Upper Volta					
Total No.	10	11	9	3	1	1	Total = 35
Memo Items							
Total No. of Current Borrowers*	20	22	27	12	8	16	Total =105
SAP Beneficiaries as % of Total	50%	50%	33%	25%	12%	6%	33%

* Countries with a lending program in the FY84-88 programming period.

(e) external borrowing policies and the management of external debt.

6. In reviewing policy performance a compromise had to be struck between the need to be expeditious -- an essential attribute of the program -- and the need to lay the foundation for a sustainable adjustment. A large majority of countries considered eligible for the Program were already implementing adjustment policies -- many in the context of IMF agreements -- and were engaged in active policy dialogue with the Bank to reduce major price distortions (e.g., Bangladesh, Brazil, Ghana, Mexico); improve the incentive structure for efficient production by reducing the anti-export bias in the trade and tariff regime (e.g., Jamaica, Panama, Philippines); scale down subsidies and improve the pricing of capital (e.g., Indonesia, Peru); upgrade the performance of public enterprises (e.g., Ivory Coast, Mali, Panama, Senegal, Togo); and correct serious distortions in the public investment programs (e.g., Indonesia, Ivory Coast, Mexico, Philippines).

7. In a number of cases, specific policy understandings were included in assistance packages devised under the Special Action Program. The policy issues varied, of course, according to the type and scope of assistance to be provided under the SAP, and a realistic assessment of the room for maneuverability. For structural adjustment lending, the eligibility required, as in the past, a strong and sustained commitment to implementing a broad range of actions over several years. In practice, this requirement included precisely defined actions in all or most of the areas described in paragraph 6. In most cases, the SALs have complemented the stabilization programs supported by the Fund. For more narrowly focussed sector adjustment loans, actions required were primarily aimed at providing appropriate incentives and enhancing efficiency in a particular sector. But eligibility for such lending also required either the absence of serious macro-economic distortions (e.g., a grossly overvalued exchange rate) or a willingness to take action on such issues. For restructuring of ongoing projects and for increased cost-sharing by the Bank, it was expected that the country would be taking reasonable measures to adjust the investments in the relevant sector/sub-sector to the reduced resource availability and that it would allocate adequate counterpart funds (at the newly agreed levels) to ensure early completion of the high priority projects remaining in the reduced program. Finally, for setting up revolving funds to accelerate disbursements from Bank Loans and Credits, the eligibility required primarily absence/resolution of major non-financial problems in project implementation and, where necessary, streamlining of procedures within the country for release of budgetary funds to the project and for claiming Bank reimbursements.

8. Given the continuous, and in most cases long-standing, policy dialogue which the Bank maintains with its borrowers, the Special Action Program augmented the prospects for specific actions by the borrowers and gave impetus to important policy reforms in several countries. In the case of Ivory Coast, for example, a wide-ranging program was adopted aimed at greater incentives for exports, reduced distortions in pricing policies and

subsidies, and streamlining of the public investment program. In a number of cases, the reforms focussed on pricing policies and interest rate structures (e.g., Mexico, Brazil, Malawi). Agreement to commit adequate counterpart funds for Bank-financed projects, improve project implementation and fulfill project covenants were important conditions for SAP (e.g., Mexico, Philippines).

9. One important element of the Special Action Program has been the reorientation in the Bank's Country Economic and Sector Work (CESW) to provide the analytical underpinning for design of appropriate adjustment programs. The FY84-86 CESW program shows a continuing shift in that respect. It includes, for example: (i) reviews of public investment programs in Argentina, Mexico, Nigeria, Turkey, Philippines and Zambia; (ii) reviewing performance of State Enterprises in Peru, Mali, CAR, Thailand and Sudan; (iii) studies to strengthen development administration and project implementation capability in Bangladesh, Indonesia and Malawi; (iv) studies to increase domestic resource mobilization in Mexico, Liberia, Thailand and Turkey; (v) review of incentives for export diversification in Uruguay, Indonesia and Sudan; and (vi) strengthening debt management capability in Turkey and Thailand.

<u>Overview of SAP Operations during CY83</u>

10. During the ten-month period following launching of SAP in February 83, a total of 184 SAP operations[3/] have been approved. These include:

(a) <u>12 New operations</u> (US$1,730 M)[4/]

- 2 SALs: Yugoslavia ($275 M)
Panama ($60.2 M)

- 6 Sector Adjust. Loans: Mexico Export Dev. ($350 M)
Brazil Agr. Sector ($303 M)
Brazil Ind. Sector ($352 M)

3/ The number of operations mentioned above are indicative and should be interpreted with caution as there is an unavoidable element of arbitrariness involved in deciding what should or should not be classified as SAP. To maintain Bank-wide consistency and to avoid unnecessary refinements, the following criteria have been adopted for determining whether or not a particular activity should be classified as SAP:

(a) Only SAP-type actions approved after consideration of the SAP paper by the Board (i.e., February 22, 1983) are included in the SAP; "actions" taken prior to that date are excluded; and

(b) Benchmark for deciding additionality due to SAP is the most recent lending program established before approval of the SAP paper.

4/ Figures in parenthesis are commitments.

Nigeria Fert. Import ($250 M)
Ghana Reconst. Import ($40 M)
Malawi Fert. Import ($5 M)

- 4 Supplemental Loans: Yugoslavia Hydropower ($61 M)
  Barbados Education ($3 M)
  Brazil Sao Francisco Irrig.($7.7M)
  Brazil Agr. Dev. ($22.8 M)

(b) Modifications to 28 new operations5/

- Increased cost-sharing in 7 projects
- Revolving funds in 13 projects
- Financing of working capital/recurrent costs in 7 projects
- Front-loading of disbursements in 6 projects
- Increased loan amounts in 10 operations ($417 M)

(c) Modifications to 144 ongoing projects6/

- Revolving funds for 92 projects
- Increased cost-sharing in 70 projects
- Front-loading of disbursements in 62 projects
- Restructuring of 31 projects

11. The 40 new operations added or modified because of SAP represent about one-fifth of all Bank Group operations approved during March-December 1983. The SAP-related commitments of $2,150 M associated with these operations constitute about 15% of the total Bank/IDA commitments during the same period. This excludes 14 other SAP-type operations (9 SALs and 5 sector adjustment loans) representing commitments of about US$1,600 M which were approved during March-December 1983 and which have not been classified as SAP because they were part of the lending program before formal initiation of SAP (cf. footnote 3). In aggregate, therefore, the SAP-type operations account for about one-fourth of the Bank/IDA lending program both in terms of number of operations and commitments during March-December 1983.

12. The commitments under SAP are essentially a substitute for more traditional operations planned earlier since the total Bank Group commitments in FY83-84 are expected to be roughly at the same level as in the lending programs established prior to approval of SAP. An analysis of the overall lending program during FY83-84 by Regions, country income groups or sectors does not indicate any major shifts from the patterns in the original lending programs planned before adoption of SAP.

5/ Operations already in the lending program which were modified before Board presentation to include one or more SAP elements.

6/ More than one modification in some projects.

13. The 144 ongoing projects modified under SAP constitute about 8% of the total portfolio of some 1,700 projects currently under supervision, and as of June 30, 1983 had undisbursed loans and credits of about $7.5 billion. More importantly, they support a total investment of about $30 billion, utilization of which should be substantially improved and/or accelerated because of the SAP assistance. Assuming conservatively that on average the utilization of this investment is advanced by one year, the incremental benefits accruing would be some $3-4 billion.

14. Incremental disbursements[7/] during FY84-86 due to CY83 SAP assistance are estimated at $2,500 M -- $2,400 M for IBRD and 100 M for IDA. This increment represents essentially advancing of the post-FY86 disbursements -- about $1,200 M because of accelerated disbursements on ongoing projects and the remainder $1,300 M because of substituting, in the CY83 lending program, the fast-disbursing SAP operations in place of the more traditional operations which typically disburse over a 7-8 year period.

15. Tables 2 and 3 give a breakdown of the approved SAP operations among the various Regions and country income groups. The Latin America Region (especially Brazil and Mexico) dominates the program accounting for about one-half of all operations and about two-thirds of the total commitments and disbursements -- reflecting both the severity of the crisis faced by the Region and its ability to use non-concessionary funds. The number of operations is fairly well distributed among the four income groups. However, practically all SAP-related commitments and disbursements are for the middle-income countries, as a result, of course, of the severe constraints on IDA resources. Per force the SAP operations in the poorer countries have been limited to setting up revolving funds and/or changing cost-sharing arrangements. However, even the higher cost-sharing arrangements are of limited applicability to the poorer countries since in

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7/ Assessing the impact of SAP activities on disbursements is complicated by the need to determine the disbursement levels in the "without" SAP scenario. Given the unusually difficult project implementation environment prevailing in many countries, the historical disbursement profiles may be of rather limited use in the present context. For the analysis in this report the following approach has been used:

(i) For new operations brought into the lending program because of SAP, all disbursements have been attributed to SAP. It is assumed, however, that these operations are fully substituting normal Bank lending which would have disbursed at the rate of 5%, 15%, 20%, 20%, 15%, 15%, 10% in years 1 through 7, respectively. The incremental impact is obtained by netting out the disbursements foregone due to lending substitution by SAP; and

(ii) for projects (new or ongoing) involving modifications because of SAP, separate disbursement estimates have been made "with" and "without" the SAP elements and only the increment has been attributed to SAP.

Table 2: Regional Distribution of CY83 SAP Operations

Region	Operations No.	Operations %	Commitments (US$M)	Commitments %	Estimated Disbursements FY84-86 (US$M)	Estimated Disbursements FY84-86 (%)
E. Africa	21	11	60	3	50	2
W. Africa	29	16	345	16	300	12
LAC	83	45	1,410	65	1,750	70
EMENA	6	3	335	16	200	8
E. Asia	42	23	-	-	180	7
S. Asia	3	2	-	-	20	1
Total	184	100	2,150	100	2,500	100

Table 3: Breakdown of CY83 SAP Operations by Country Income Groups

Per Capita Income Group	Operations No.	Operations %	Commitments (US$M)	Commitments (%)	Estimated Disbursements FY84-86 (US$M)	Estimated Disbursements FY84-86 (%)
I. $410 or less	30	16	60	3	80	3
II. $411 - 805	53	29	35	2	220	9
III. $806 - 1,670	29	16	375	17	350	14
IV. $1,670 or more	72	39	1,680	78	1,850	74
Total	184	100	2,150	100	2,500	100

many cases IDA was already financing a high proportion of the total project costs.

Design of Assistance Measures

16. Since all SAP activities involving new operations go through the normal process of approval by the Executive Directors, the discussion below focuses on the approach used for selection of ongoing projects for assistance under the Special Program and on the design of specific assistance measures for those projects. To provide timely assistance to the borrowers while maintaining the normal high standards of project quality required by the Bank, the provision of SAP assistance was limited to projects with a recent field supervision by the Bank -- typically, no more than six months prior to approval of special assistance. Based on the supervision mission findings, the projects for special assistance were expected to have the following features:

(a) continued high priority in terms of the likely development impact including *inter alia* satisfactory economic returns, appropriate institutional objectives and feasibility of adequate O&M (including availability of imported spares and consumables) following project completion;

(b) absence of serious non-financial problems (e.g. managerial, technical, political and procurement problems) and compliance with the key loan covenants. Alternatively, an agreed action plan for resolving such problems as a pre-condition for special assistance;

(c) presence of serious gaps in the financing plan with adverse implications for timely project implementation and for the likely development impact; and

(d) likelihood of early project completion (typically over the next 2-3 years) assuming resolution of financial problems and (where appropriate) implementation of the agreed action plan.

17. Design of the assistance measures for the selected projects generally involved:

(a) reviewing the appropriateness of project scope. In particular, possibilities were examined for reducing the scope without serious adverse effects on the remainder of the project. Project components experiencing chronic implementation problems and/or components whose economic viability had deteriorated since appraisal were normally deleted/reduced. Also considered for reduction in scope were projects which were essentially a line of credit, defined in financial terms without specific physical content (e.g. DFC loans) or where physical targets were defined in approximate terms and the exact scope was not essential to the project success. Consideration was also given, on the other hand, to changing the project scope to include any critical components (e.g. spare parts) necessary for satisfactory achievement of the overall project objectives. In total about one-fifth of the 144 ongoing projects assisted under SAP involved changes in project scope;

(b) updating of project implementation schedules and cost estimates taking into account inter alia past implementation experience, any changes in scope deemed desirable, and the implementation of action plans, where appropriate (para. 16 (b)); and

(c) developing a new financing plan based on a realistic assessment of likely contributions by the non-Bank financiers and increased cost-sharing by the Bank during the SAP period. In some cases this meant front-loading the disbursements during the SAP period (with off-setting reductions subsequently) without affecting the overall cost-sharing for the project. In other cases, the savings from restructuring (para 17 (a)) or other causes (e.g. changes in exchange rates) permitted the desired increases in cost-sharing during the SAP period.8/ Since the impact of front-loading Bank disbursements for the remainder of the SAP period will diminish rapidly during FY85, we plan to accept proposals for increased cost-sharing on eligible expenditures up to FY86. Supplementary loans and credits were considered, as an exceptional measure, in the absence of other options for assuring satisfactory project completion. In about two-thirds of the cases, the revised cost-sharing arrangements comprised financing a part of the local costs during the SAP period. In determining the share of costs to be financed by the Bank, it was ensured that the procurement arrangements complied with the Bank guidelines.

18. Table 4 shows the sectoral breakdown of the 144 ongoing projects selected for assistance under SAP during CY83. The SAP projects are concentrated in the Agriculture and Rural Development sector, reflecting the emphasis on high-priority production and/or export-oriented projects. A comparison of the implementation status of the SAP projects with those of

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8/ Any remaining savings were to be cancelled; however, to strengthen the willingness of governments to cancel/restructure projects which were no longer consistent with the country's investment priorities, the savings on IDA credits were permitted to be used for recommitment in the same country provided the savings were the result of a deliberate restructuring of the investment program. Extension of closing dates in order to utilize the savings was not permitted; also, the project objectives could not be reformulated in order to use up the savings.

all Bank projects under supervision indicates that, on the whole, the SAP projects had fewer non-financial problems (e.g., management performance, expected benefits, compliance with loan covenants, institution-building) but significantly above-average financial problems (e.g., project finances, disbursements). The sectoral composition of the SAP projects and the nature of problems associated with those projects indicate the overall effectiveness of the criteria and procedures used in selecting projects for assistance under the SAP.

Table 4: Sectoral Composition (%) of Ongoing Projects Modified Under CY83 SAP

Sector	SAP Projects	Total Portfolio of SAP Countries a/ b/	Bankwide Portfolio b/
Agr. & Rural Development	51	35	35
IDF	7	10	9
Industry, Oil and Gas	1	7	8
Public Utilities	11	13	16
Social Sectors	16	15	14
Transport	12	13	13
Others	2	7	5
Total	100	100	100
Memo Item			
Total No. of Projects	144	791	1,720

a/ i.e. 35 countries as per Table 1.
b/ As of June 30, 1983.

Program Impact

19. The Special Action Program has been in effect for only ten months. About three-quarters of all SAP approvals are in fact less than six months old and it is too early to make any definitive judgements on the overall impact of the program. Disbursement data for the first half of FY84 indicate nevertheless that there has been a significant increase in disbursements on a number of SAP projects. The SAP-related incremental disbursements during July-December 1983 are estimated at about \$650 M -- \$350 M on new commitments under SAP and \$300 M on ongoing projects modified under SAP. About two-thirds of the incremental disbursements due to SAP have been in Brazil where the monthly disbursements during the past six months averaged \$131 M compared to \$58 M for the same period a year ago.

20. The real impact was, however, much larger than the actual resource transfer, since the Program helped to : (a) keep on stream

144 ongoing projects with costs totalling about $30 billion, (b) strengthen the countries in implementing sound economic policies and reforms while encouraging others to introduce reforms, (c) improve the willingness of borrowers to commit sufficient local currency for high priority development projects and ensure faster project implementation, and (d) provide an intensified focus on such aspects as export promotion, debt management, resource mobilization and pricing policies, in the Bank's economic and sector work programs.

21. Early feedback from some of the SAP operations in Brazil, Nigeria, Ivory Coast, Ghana and Niger indicates significant improvement in project implementation because of accelerated resource transfer and/or improved policy dialogue. The operations under the Program have also provided further support to the desirable patterns of lending discussed in the Progress Report on Sub-Saharan Africa[9/] which emphasized agricultural production and the rehabiliation and maintenance of infrastructure.

22. Establishment of revolving funds, an increasingly common feature of Bank operations even before the SAP, are also proving to be helpful in improving project implementation by providing a ready source of finance up-front. The generally positive experience so far with the revolving funds suggests that they should be adopted as a regular feature in future Bank projects.

23. The export development operations approved in CY83 as part of the SAP generally have not started up as rapidly as envisaged at appraisal. A variety of reasons are responsible for slow development of these projects: smaller than expected growth in the economies of the borrowers, delays in the required legislative approvals, institutional weaknesses and, perhaps most importantly, a slower than expected adjustment by exporters to market rate credit operations denominated in foreign exchange or fully pegged to a major currency, as opposed to the traditionally subsidized local currency credit support that Governments had provided for exports. Given the Bank's policy dialogue on export development with the borrowing countries, it is expected that, as their economies gradually recover, the incentives will be stronger for further institutional and administrative improvements, as well as for greater reliance by exporters on foreign exchange finance for the imported inputs. Therefore, disbursement performance under these loans is expected to improve in 1984.

24. In approving the Program, the Executive Directors had noted that active participation by other donors would be needed to achieve the maximum impact. Since approval of SAP, the Bank has intensified its efforts to persuade other donors to introduce similar approaches. For example:

- At Consultative Group sessions, and in its contacts before and after CGs, the bank has documented the

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9/ "Sub-Saharan Africa: Progress Report on Development Prospects and Programs", R83-229, dated July 8, 1983.

special needs of the borrowers and the policy adjustments being undertaken;

- In the Development Assistance Committee of the OECD the Bank has emphasized the importance of parallel actions on several occasions with key representatives and leaders of OECD donor organizations. The DAC itself highlighted the importance of such action by urging bilateral donors to implement their own "program of special assistance" modeled after that of the Bank;

- In various discussions with the Bank, EEC has also expressed great interest in SAP as a possible guide to their own operations; and

- In its regular consultations with regional development banks, bilateral aid agencies and private banks, Bank officials have stressed the importance of mobilizing full support for high priority programs and projects in countries implementing appropriate adjustment policies.

25. The response by donors has been generally positive as many have been prepared to provide more fast-disbursing assistance in support of Bank and Fund programs, for example, in Sudan and Ghana. This has been especially important in Africa where constraints on IDA have limited the Bank's ability to meet as large a share of the urgent requirements as desirable. ADB and IDB also have started Special Programs of their own, similar in spirit to that of the Bank.

II. Global Economic Outlook and the Future Program

Global Economic Outlook

26. Economic conditions in the industrial countries were slightly better in 1983 than had been envisioned a year ago, mostly due to a stronger than expected recovery in the United States. GDP growth in industrial countres in 1983 is now estimated at about 2%, up from 1.5% projected earlier. As a result, the prices of developing countries' non-oil primary exports have increased at a slightly faster rate than expected. Oil-importing developing countries also benefitted from the drop in petroleum prices. The oil-exporting developing countries fared much worse, however, because of the sharp decline in oil export revenues. According to the preliminary indications, the private lending to developing countries during 1983 reached the level expected at the beginning of the year. However, because of lower export growth and continued high interest rates which necessitated restrictive policies, developing countries' GDP growth is now estimated to have been below 1% compared to about 3% anticipated a year ago. The recession has therefore had a more severe impact on developing countries than had been anticipated, both in reducing growth rates through 1983 and in breaking developing countries' momentum for future growth.

27. While the economic recovery in industrial countries holds the prospect of some revival in exports, there is very little optimism for a sharp recovery in ODA transfers or in access to foreign private capital markets. Financing therefore will continue to be constrained. It is estimated that the current account deficit of developing countries will remain close to $80 billion in 1984. Of this total, lending from private sources is estimated to be only $21 billion, a large part of which will be associated with rescheduling of both public and private debt. It is likely that private lenders, viewing the moderate recovery in developing countries and uncertain prospects for improvement in creditworthiness, will remain cautious. Net resource transfer from private loans will, therefore, continue to be negative -- about $17 billion in 1984 and a similar amount in 1985.

28. The servicing of external debt will continue to exert its toll on the export receipts of developing countries well into the late eighties. Current estimates show that the overall debt service ratio may decline from 21 percent in 1983 to about 19 percent in 1985. However, the current round of debt reschedulings will result in increasing payments beyond 1986, and there are sharp differences in the debt service ratios of individual borrowers in Latin America and Sub-Saharan Africa. Many developing countries continue to have serious internal budgetary problems deriving from the deterioration in export income and slower overall economic growth. In Latin America the global recession led to widespread bankruptcies of private firms and its impact will continue to be felt in lower revenues for some years. On the expenditure side, there is a concurrent pent-up demand which needs to be satisfied. Public investment programs and many categories of development expenditure had to be sharply reduced while recurrent expenditures for the maintenance of economic and social infrastructure have slowed down. It seems unlikely that the recovery in exports or overall economic growth will be sufficient to generate the foreign exchange earnings and government revenues needed to finance priority expenditures over the next two years.

29. It is therefore more important than ever that official lenders maintain and increase the flow of capital to developing countries. Increased official lending would ease the financial constraints and increase private lenders' confidence in a return to creditworthiness. Failure to provide increased resources at this crucial juncture, on the other hand, could further undermine the confidence of the private lenders and worsen the crisis with serious consequences for the developing countries and the world as a whole.

30 It is also important that the Bank member countries continue to benefit from the assistance provided under the Special Action Program. The Bank will continue to implement the Special Action Program in a pragmatic manner, examining country and project eligibility on the basis of criteria that ensure the maximum effectiveness of the resource transfer and the achievement of necessary policy reforms. The criteria for implementing the Program have proved to be appropriate and no change is proposed.

Future Program

31. Additional SAP activities are under consideration for about 30

countries of which about half will be new to the program, thus raising the total number of SAP beneficiaries to about 50 -- about one-half of all the active Bank Group borrowers. No significant change is expected either in terms of the geographical areas or the country income groups of the beneficiaries.

32. A total of about 130 SAP operations are tentatively planned at this stage for the next 18 months, including about 20 new operations and modifications to about 110 new or ongoing operations. The total commitments for these operations are expected to be around $2,000 M. Not all of these operations may, of course, materialize. Nevertheless, the total SAP commitments through June 1985 are likely to reach about $3,500 M of which about $250 M would be for IDA. The increase in disbursements attributable to the Program is now estimated at $3,800 M of which $300 M would be for IDA (Table 6). Thus the aggregate impact on resource transfer is expected to be significantly greater than that envisaged earlier.

Financial Implications of the Program

33. The effects of the SAP on disbursements should not require any financial response at the present time. While it is expected that the SAP will increase IBRD disbursements in FY84 by $1.6 billion over what they would have been without the program, the current disbursement projections already incorporate a $1.0 billion increase due to the SAP. Moreover, economic conditions and appreciation of the dollar have been operating to reduce disbursements from projects not assisted under the SAP. Consequently, it is expected that total disbursements in FY84 will be at about the level projected in the FY84 budget.

34. The net impact of the program may be more pronounced in FY85-86 if economic conditions improve so that disbursements from the rest of the portfolio return to more normal patterns. An increase in the disbursement projections over the next few years would reduce the ratio of liquid asset holdings to future cash requirements, which is now projected to be 43.7% at the end of FY84. Those increases are unlikely to be of such a magnitude, however, as to trigger additional borrowing in order to keep the liquidity ratio from falling below 40%. Nevertheless, the impact of the SAP on disbursements will be an important element in the disbursement projections that will be made in the FY85 budget presentation.

Conclusions

35. The experience so far with the Special Action Program demonstrates that it has by and large succeeded in reaching its objective of assisting a wide spectrum of countries (35) through a significant acceleration in Bank disbursements (about $650 M during the first half of FY84). The real impact was, however, much larger than the actual resource transfer, since the Program helped to: (a) keep on stream 144 ongoing projects with costs totalling about $30 billion, (b) strengthen the countries in implementing sound economic policies and reforms while encouraging others to introduce reforms as a condition for the resource transfer, (c) improve the willingness of borrowers to commit sufficient local currency for high priority development projects and ensure faster project implementation, (d) provide an intensified focus on such aspects as

Table 6: Projected Impact of SAP on IBRD/IDA Disbursements

IBRD	FY83 1/	FY84	FY85	FY86	Total
	(US$ M)				
SAP Commitments	935	1,600	715	-	3,250
Gross Disb. from SAP Commitments	-	1,200	1,300	500	3,000
Net Disb. from SAP Commitments 2/	-	1,000	900	-	1,900
Net Disb. from changes to ongoing operations	-	600	600	400	1,600
Total Net Impact	-	1,600	1,500	400	3,500
IDA					
SAP Commitments	85	100	65	-	250
Gross Disb. from SAP Commitments	-	50	70	80	200
Net Disb. from SAP Commitments 2/	-	45	50	40	135
Net Disb. from changes to ongoing operations	-	75	50	40	165
Total Net Impact	-	120	100	80	300

1/ Actuals.
2/ Net of disbursements foregone due to lending substitution by SAP.

export promotion, debt management, resource mobilization and pricing policies, in the Bank's economic and sector work programs, and influence other donors to implement their own programs of special assistance.

36. The sectoral distribution of the Special Action Program has also accorded with the Bank's priorities, with agriculture enjoying the greatest share, a sector that for a large number of borrowers is a major contributor to foreign exchange earnings. The existence of an IDA resource constraint was a major drawback which resulted in skewing the program in favor of countries that were Bank borrowers, a problem well recognized during discussion of the SAP proposals a year ago.

37. There is considerable evidence that the revival in economic activity in the industrialized countries will take time to exert its impact on the exports of many developing countries. A large number of the developing countries are also saddled with heavy external debt repayment schedules, declining domestic revenues and pessimistic prospects for a revival in official development assistance as well as foreign private capital flows. Many of these countries are nevertheless implementing courageous reforms to improve resource allocation and increase export competitiveness. The support they receive from the Special Action Program assists this process.

38. We will proceed with the Special Action Program and provide the Executive Directors with a new assessment later in 1984, covering operations through June 1984. By that time a more definitive judgement on the program impact as regards disbursements, project implementation performance and policy reform will be possible. The report will also provide an opportunity to consider whether the program should be extended for an additional year. President's Reports for loans to countries within the Program will continue to summarize the nature of the special actions being taken.

Operations Policy Staff
February 6, 1984

International Bank for Reconstruction and Development
International Development Association

FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on February 15, 1983

R83-22
IDA/R83-10

FROM: Vice President and Secretary

January 28, 1983

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

Attached is a memorandum from the President entitled "World Bank Program of Special Assistance to Member Countries - 1983-1984" dated January 28, 1983.

Questions on this document should be referred to Mr. Chernick (extension 60123) and/or Mr. Applegarth (extension 75765).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 28, 1983

MEMORANDUM TO THE EXECUTIVE DIRECTORS

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence of an early recovery. Reflecting the growing interdependence of the world economy, industrialized and developing nations have, with few exceptions, been hard hit by the recession. Almost all the World Bank's borrowers are experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and increasingly onerous debt burdens. The adjustment process of the early 1970s was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, a boom in commodity prices, and low real interest rates. But since 1980 there has been little growth in net aid, commercial capital has carried record high real interest costs, trade growth has ceased and commodity prices have collapsed. More recently, commercial bank lending has stagnated and in the third quarter of 1982 there was a decline in the net outstanding loans to developing countries. Many member countries have had to reduce and reorient investment programs, to curtail recurrent expenditures, and to delay the completion of high priority development projects. Programs in health, education and other social sectors have been particularly vulnerable.

2. While there is an urgent need for balance of payments support, which the IMF is providing with assistance from the commercial banks, there is an equally urgent need to deal with the development aspects of the current crisis. High priority projects already under implementation must be completed; effective utilization of existing capacity is essential to income growth in constrained circumstances; an appropriate level of investment in human capital must be safeguarded if future development prospects are not to be impaired; existing capital stock must be maintained if replacement costs are not to be excessive; and quick yielding and export-oriented projects must be supported to generate domestic and external resources for future growth. It is in these areas that a special effort by the World Bank is necessary to supplement short-term balance of payments and stabilization measures.

3. A World Bank Action Program is thus proposed for the next 24 months; even if there is a resumption of growth in the industrialized countries in 1983, and even if this growth is more vigorous than is now anticipated, it will take time to have a significant effect on the economic situation in our borrowers. The Action Program will assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development despite adverse external circumstances. Without reducing our concern for appropriate macro-economic or sectoral policies, without lowering our standards of project analysis and without weakening our portfolio quality, we propose:

(a) to help maintain project momentum by accelerating disbursements under existing and proposed loan commitments;

(b) to substitute high priority operations that support structural adjustment, policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations;

(c) to expand advisory services in the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other lenders make similar efforts.

These actions in combination are expected to increase disbursements significantly in FY84 and FY85, and to have an even more substantial impact on net resource transfers.

4. This paper presents a diagnosis of the current world economic situation and its impact, outlines the content of the Action Program we propose to undertake and describes the financial implications of the Program.

II. The Impact of the Current World Economic Situation

The World Economic Situation

5. The world economic recession is exceptional in its severity and duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth in the OECD countries and sustained high interest rates have contributed to much reduced growth in the developing countries.

6. After the events of the early 1970s, the commercial banks channelled a large amount of capital to the oil importing developing countries, official capital flows increased, and there was a boom in commodity prices. Together these helped offset the impact of higher energy prices and the rapid increases in prices of many manufactured goods. Rapid inflation reduced the real burden of carrying fixed interest debt, and world trade expanded rapidly, particularly as OECD growth recovered in 1976. Rapid growth in the oil exporting countries helped maintain the demand for exports from other developing countries, and increased their earnings from workers remittances. These favorable factors helped most of the oil importing countries to adjust

and reduce the size of their current account deficits which declined from a peak of about 5% of aggregate GNP in 1975 to about 2% in 1978, which is roughly equal to average pre-1973 levels.

7. With the further increase in energy prices in 1979, the recession in OECD countries and the emergence of high real interest rates, the current account deficits of the oil importing developing countries again rose to about 5% of GNP. These deficits, which declined only slightly in 1982, are likely to be significantly smaller in 1983. This reflects not a successful adjustment process, but reduced external financing and a consequent slowing down of growth. The accumulation of large debts and a stagnant world economy have combined to reduce the creditworthiness of many developing countries. Debt servicing difficulties in several major borrowers have led to severely restricted access to commercial capital for almost all developing countries. Unlike the post 1974-75 recovery period, official assistance has not grown since 1980.

8. The task of restoring growth in the OECD countries now appears to be more difficult than initially anticipated. OECD growth rates, which fell from 3.2% in 1979 to 1.3% in 1980 and 1.2% in 1981, were expected to experience a strong revival in the second half of 1982. This, however, did not materialize, and overall the OECD countries did not grow at all in 1982. A modest recovery of 1.5% is now forecast for 1983 compared with 3.0% expected a year ago. Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1960-82
(percent)

	Industrial Countries	Developing Countries: Oil Exporters	Developing Countries: Net Oil Importers
1960-72 (annual average)	4.9	6.7	5.7
1973	6.2	8.6	7.1
1974	0.6	7.0	5.6
1975	-0.6	4.0	3.6
1976	5.2	7.6	5.3
1977	3.7	5.2	5.3
1978	3.9	5.6	5.3
1979	3.2	8.5	3.2
1980	1.3	4.9	4.2
1981	1.2	-2.0	1.9
1982(preliminary estimates)	-0.2	1.0	1.5

Source: World Bank data for 1960-81; OECD estimates for 1982.

9. The decline in demand in the industrial countries has caused the volume of world trade to stagnate in 1981 and decline slightly in 1982. The OPEC countries' export volumes declined by an average of about 15% per year from 1980 to 1982, reflecting reduced demand for oil in industrial countries as a result of the recession, higher prices and conservation measures. As unemployment has risen in industrialized countries, there have been growing protectionist pressures often aimed at imports from developing countries. As a result of these factors, the volume of exports from the oil-importing

developing countries is estimated to have grown by only about 3.5% in 1982, compared with an annual average of over 8% during 1978-80.

10. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured imports, and lower interest rates, these beneficial effects have been more than offset by steep declines in primary commodity prices. The World Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 6% in 1980, and almost 4% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. Their terms of trade deteriorated by about 25% between 1979 and 1982.

11. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with an average of over 6% during the 1970s, non-oil developing countries' import volumes have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three consecutive years.

Table 2: Changes in Terms of Trade

	1979	1980	1981	1982	Estimated 1983
Industrial Countries	-2.4	-7.8	-1.1	1.5	0.5
Developing Countries					
Oil Exporting	29.1	41.5	10.8	-1.0	-2.0
All Non-Oil	-0.3	-6.2	-3.9	-3.5	-1.0
Non-oil Low-Income	-1.8	-13.0	-10.8	-3.5	-1.0

Source: For 1979-82, IMF World Economic Outlook - General Survey (ID/83/1), January 17, 1983; for 1983, estimates based on OECD data.

12. During the initial years of the current recession the developing countries, particularly the oil exporters and major exporters of manufactures, were able to offset adverse external events in part by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from about $350 billion in 1979 to about $530 billion in 1982.1/ Only one-third ($60 billion) of the increase came from official sources, the rest from private sources, chiefly commercial banks. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it

1/ World Bank data. OECD estimates a total of $626 billion, but covers countries not included in the World Bank data base (e.g., Spain, Saudi Arabia, Iran, Iraq).

increasingly difficult to manage their heavy debt burdens, especially those that had borrowed on shorter maturities. This was particularly true of countries, such as the oil exporters, whose creditworthiness had been based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico). This has made the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment.

13. Policy reforms and bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. As a result, developing countries are being forced to reduce imports, investment, and their growth objectives.1/

Country Experience: Macroeconomic Impact

14. There is considerable variation in the impact of the international recession on individual countries, but there are also broad similarities. Most countries have experienced, in varying degrees:

- import reductions because of stagnant or declining foreign exchange earnings, reduced inflows of external capital, and rising debt service requirements;

- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;

- cutbacks in investment plans and the slowdown of on-going projects because of shortages of domestic and external funds; and

- shortages of funds to finance the operation and maintenance of existing facilities.

15. The severity of such problems depends not only on economic structure, but also on the choices countries make between the various ways of adjusting to external shocks: some adjustment paths are efficient and others less so. Current account deficits can be reduced by slower growth, which cuts the demand for imports, or by switching production toward additional exports and efficient import substitutes. Countries which still have access to external capital can use this capital to help make these structural adjustments or to help postpone making adjustments. Countries which choose to maintain present consumption levels by reducing investment will eventually pay the price of a

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1/ A more detailed analysis of the causes of the present crisis was presented in the World Development Report, 1982. Updated views on the current world economic situation will be presented in the WDR 1983.

more difficult adjustment in later years, or must be willing to accept a longer period of slower growth. Countries which, on the other hand, restructure investment programs, increase domestic saving, and give incentives to exports may have to accept lower growth and consumption during the transition period, but are likely to emerge as stronger economies in the longer run. For the low income or least developed countries, however, the choices are more difficult, since present consumption levels are already very low, and further cuts to maintain investment imply real social and human costs.

16. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditure has been reduced by 40% in real terms over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from receiving concessional assistance. Borrowings from the IMF already total 380% of quota.

17. Some countries, of course, were facing severe problems even before the current recession (e.g. Argentina, Bolivia, Sudan, Zaire), largely because of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

18. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the governments budgetary deficit, from an expected 2.4%, to 5.3% of GDP for 1981-82. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23% higher than budgeted. As a result, there was a 12% reduction in development expenditures.

19. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, has worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

20. Many countries are taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external

borrowings. Bangladesh, faced with declining export prices, poor weather and stagnating aid levels in 1982, introduced a series of new tax measures, reduced fertilizer and food grain subsidies, and raised the prices of petroleum products, electricity tariffs and natural gas.

21. Latin American countries have been particulary affected by the reduced access to new commercial credits. A number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF assistance. While these programs vary among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to be slower growth, or even no growth at all, in these countries in 1983.

22. In Mexico, for instance, the Government has agreed to reduce its budgetary deficit from 16.5% of GDP in 1982 to 8.5% in 1983, to limit the growth of new foreign borrowing, and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure about $19 billion of existing debt and it is estimated that net new financing of $7 billion will be required in 1983. While these measures will help, Mexico still has major structural problems to confront.

23. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. Pakistan, for instance, has taken steps since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irrigation system, while the investment program in irrigation has been reoriented toward projects having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into the manufacturing and energy sectors, and energy prices have been made more realistic.

24. While these reforms have been supported by the Bank (a SAL) and the Fund (an EFF), much more needs to be done. In the past year, although the value of Pakistan's imports increased by 2%, the current account deficit increased by 54%, principally due to a sharp decline in agricultural export prices and slower growth in migrant remittances. In addition, net disbursements of official bilateral assistance have continued to decline from the peak reached in the mid-70s. Without an improvement in export prices and increased external support, it will be difficult for the Government to carry out its structural adjustment program.

25. Almost all countries now face difficult decisions as they attempt to balance reductions in investment programs with the introduction of new fiscal measures or greater external borrowing. There is always the danger that in choosing among these alternatives, countries will tend to curtail government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a

very adverse impact on long-term growth and social stability. There is also the danger that the severity of the immediate crisis will lead to reductions in demand, including cuts in investment, which will reduce the medium term prospects for growth unduly.

Country Experience: The Impact on Bank-Financed Projects

26. Bank assisted projects have not been immune from the pressures on investment programs. A recent review of the Bank's project portfolio shows that the impact of the worldwide recession on developing countries is reflected in increasing delays in the implementation of projects; borrowers' economic problems adversely affect the entire process of making policy decisions, as well as the ability of the governments to provide adequate managerial and financial resources.

27. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, some Bank-financed national industrial development banks have experienced reduced profitability and/or increasing loan arrears, as in projects in Korea, the Philippines, Colombia, Morocco and Kenya. Agricultural projects expected to produce goods for exports have been affected by declining commodity prices, e.g., projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been impeded by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds.

III. Bank Response: An Action Program

Scope and Objectives

28. While the World Bank cannot, and should not, attempt to finance the balance of payments deficits of its members, it has a responsibility to assist member countries with policy advice and special financial assistance so as to maintain the maximum possible level of development activities and minimize the erosion of future growth prospects.

29. Because there is a reasonable expectation that the world economy should begin to recover within the next 12-24 months, and consequently that the severity of the pressures on the developing countries may be attenuated, the proposed Action Program concentrates on achieving results over the next two years. If recovery takes longer than anticipated the Program can be extended. The Program aims at enhancing the effectiveness of resource use in countries that are making a determined effort to implement appropriate adjustment policies. It entails an increase in policy advice to help countries strengthen their development programs, measures to accelerate disbursements on existing loans, and shifts in the pattern of new commitments in favor of quick-yielding investments, which generally also involve fast-disbursing operations. The special assistance will be available to countries which have an appropriate policy framework in place, where investment programs have been or are being adjusted to resource availabilities, where adequate efforts are being made at resource mobilization, or where the assistance can support appropriate policy changes and adjustment measures. This will require continued close collaboration with the IMF to ensure that reductions in demand

take appropriate account of longer term development objectives and to ensure that the Bank's support in sectoral policies and project activities complements the general fiscal and monetary measures.

30. Our present assessment is that such changes can be accommodated in the Bank's planned commitment levels for FY83 and probably also in FY84, since many countries are reducing their investment programs, and the number of new investment starts will be substantially reduced. However, should further examination of individual country investment programs indicate a need for an upward revision of the planned FY84 commitment level, we will make the appropriate recommendations in the context of the FY84 Budget and Operating Program.

31. The Bank's ongoing country economic and sector work puts the Bank in an excellent position to determine how it can best support governmental actions and to evaluate which borrowers should benefit from the various measures proposed. The many factors that are relevant to such evaluations include the appropriateness of the pricing framework to stimulate production and exports, the composition and scale of the investment program, the government's efforts to contain budgetary and current account deficits, and the impact of budgetary changes on expenditures on human capital development and vulnerable income groups. An enhanced program of economic and sector work, as well as additional technical assistance, will be an essential ingredient. The Bank will consult bilateral and other multilateral lenders and urge them to support these initiatives through parallel actions of their own.

32. The Bank's Action Program involves temporary changes in certain Bank practices and procedures, as described below, and a shift in the type of project to meet the current economic situation in many of our borrowers. No aspect of the Action Program involves a lowering of Bank standards of macroeconomic and sectoral policy conditionality, creditworthiness or project related conditions. Rather, it is designed to help borrowers take appropriate actions to offset the adverse effect on development of the severe short-term liquidity problems caused by the current global economic environment.

Major Elements of the Program

33. Expanded Structural Adjustment Lending. Structural adjustment lending has been a valuable tool for helping borrowers design and implement major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick disbursing assistance. SALs have provided an excellent opportunity for enhanced policy dialogue on broad economic and sectoral policies. As economic conditions worsen, a number of additional countries are planning to make broad policy changes and have explored the possibility of Bank support. Several additional countries are likely in the near future to adopt policy reforms that will satisfy established SAL performance criteria.

34. Until now Management has restricted the size of SALs to about 30% of a country's lending program, consistent with the Bank's primary emphasis on project lending. Under current circumstances, however, massive reductions in investment programs may, justifiably, leave little scope for new starts, while the scale of policy changes called for is larger than heretofore, and the need

for speed in implementation is greater. It is necessary therefore to alter this yardstick. We propose that the size of SALs be commensurate with the scope and complexity of the adjustment program being undertaken, even if this means that temporarily the SAL component will be a larger share of the country's lending program. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. Should it appear that an increased number of structural adjustment programs warrant support so that total SAL and program loan commitments would exceed 10% of the Bank's lending program, Management will, as previously indicated, bring the issue to the Board for consideration.

35. Sector Adjustment Support. There are many countries in which policy reforms focussed on specific sectors are more appropriate than comprehensive SAL programs. The objective of such operations are two-fold: to support necessary policy changes and administrative improvements, and to provide the resources necessary to utilize existing productive capacity more efficiently. Three general categories of such loans, utilized in the past, involve export development, rehabilitation and modernization of existing plants, and provision of current agricultural inputs as part of a broad program to modify the incentive structure.

36. An example of export development lending is the Export Development Fund loan approved for Jamaica. The loan finances a revolving fund which enables exporters to obtain raw materials, spare parts and minor equipment necessary for current production. The foreign exchange is repaid by the exporters in 6-12 months out of their export earnings. The objective of such loans is to ensure that shortage of foreign exchange does not lead to underutilization of export capacity which would reduce foreign exchange earnings further. Such loans can be effective, of course, only if export competitiveness is maintained and if other incentives for export production are appropriate.

37. Lending for rehabilitation and modernization has been done in a number of countries. For instance, the Agricultural Rehabilitation Credit in the Sudan served to restore the production of cotton, Sudan's principal export. The credit provided key inputs for production and stressed physical rehabilitation, improvements in the incentive structure, marketing and the input distribution systems. Such operations need not, of course, be limited to agriculture: there is scope for such operations in industry, power, roads and transport where budgetary pressures have reduced maintenance below levels needed by the equipment, thus impeding use at full capacity.

38. An example of lending for agricultural inputs, as part of a reform of sector policies, is the fertilizer import loan to Pakistan. In general, subsidies for agricultural inputs are a major drain on government budgets, displacing higher priority development investments. This is happening now in Nigeria, where many agricultural projects have come to a halt because the States can not finance their share -- the bulk of State expenditures on agriculture being earmarked for the fertilizer subsidy. Action to reduce these subsidies, and phase them out gradually, will be facilitated if adequate supplies of fertilizer to the farmer can be assured through increasing imports or domestic production, and by improving marketing and distribution systems.

39. Financing an Increased Share of Project Costs. The Bank generally finances the foreign exchange costs of projects. In the middle and higher income countries, exceptions to this rule are made only for projects in which the foreign exchange component is very small. This is often the case in projects in agriculture or the social sectors. In those cases the Bank generally finances 35% of project costs -- a percentage thought necessary to ensure adequate Bank involvement in project design and implementation. In the lower income countries, the Bank also finances a portion of the local costs, taking account of the limited capacity in these countries to mobilize public resources. In the poorest countries, the Bank finances up to 95% of project costs. In all countries, the share of project costs financed by the Bank is affected by the availability of cofinancing. Consequently, the Bank may finance less than the full foreign exchange costs or may agree to total external financing covering up to 95% of project costs.

40. We propose to modify these criteria for cost sharing for the balance of FY83 and FY84 on a country- and project-specific basis, to help ensure the completion of high priority projects and programs as expeditiously as possible. Financing a larger share of project costs may involve fewer projects, which may be precisely what is appropriate under present circumstances. In the present circumstances, borrowers are responding appropriately and with the full encouragement of the Bank, by reducing their investment programs, including, wherever appropriate, cancellation of Bank-financed projects. To obtain the benefits of the additional output as soon as possible, priority must be given to completing high priority ongoing projects, many of which have been delayed by the shortage of foreign exchange or budgetary resources. Since disbursements under new projects approved in FY83 and FY84 will be small, it is proposed to increase the Bank's share of project financing on existing as well as new projects. We would therefore plan:

- to reduce the scope of ongoing projects where appropriate while retaining the entire amount of Bank financing so that the Bank effectively would cover a higher percentage share of costs;

- to consider supplementary loans for ongoing projects to increase the Bank's share of financing, including interest during construction where appropriate. The amortization for such loans would be incorporated in the schedule of the original loan. Retroactive financing would be limited to eligible expenditures incurred in the last 12 months. Such supplementary loans would include an agreed implementation plan to accelerate project completion;

- in exceptional cases, where a set of similar Bank-financed projects is affected by budgetary constraints, the problem would be addressed through a composite supplementary loan usually in a single sector, with provisions to ensure the appropriate allocation to individual projects;

- to restructure loans which finance broad programs in such areas as irrigation, water supply and feeder roads. By reducing the time period covered by the project the Bank would increase the share of costs it would finance. This will require government commitment to complete the balance of the program -- already a standard feature of such loans; and

- to make increasing use of revolving funds. These funds, into which the Bank deposits in advance funds required for expenditure in 60 days, were not as commonly used in the past as today. They avoid tying up scarce foreign exchange resources for eligible expenditures while awaiting Bank reimbursement. They are replenished as disbursement requests are processed in the usual way.

41. These, and similar measures, will provide additional resources quickly to countries and implementing agencies to help alleviate budgetary and foreign exchange bottlenecks. In addition, for new commitments in FY83 and FY84 we would:

- consider financing a larger share of recurrent costs for the next two to three years, offset by a sharper reduction in the later years;

- emphasize maintenance and rehabilitation projects in view of their importance in helping to utilize existing investments;

- consider financing working capital requirements in loans to DFCs, or other financial intermediaries.

42. <u>Enhanced Policy Dialogue</u>. Increasing the pace of resource transfers will be supplemented by a further expansion of analytical support. The Bank will help governments, on request, review investment programs, macro-economic policies and trade and pricing policies, expand its assistance for debt management either through technical assistance credits or staff support, and assist in assessing changes in development priorities. Country economic and sector work has expanded in FY82 and again in FY83. We expect further growth will be required in FY84 too.

43. <u>Coordination with Other Lenders</u>. The Bank's Action Program will be of importance in individual countries but to achieve maximum impact it will require the active participation of other donors. The Bank will intensify its use of various consultation mechanisms with other international lending institutions, bilateral aid donors and sources of private capital to urge consideration of similar measures especially as there is some evidence that disbursements by bilateral donors have been curtailed to meet their own budgetary problems. Meetings of aid consultative groups, and the consultation meetings with bilateral and regional organizations provide appropriate fora for discussions both on actions for individual countries and temporary changes in general lending practices.

Financial Implications of the Action Program

44. The basic objective of the Action Program is to assist those countries seeking to deal effectively with the current adverse economic conditions and, to the extent possible, maintain their development momentum. This will be assisted by accelerating the transfer of resources out of existing and new commitments in support of effective programs of policy change and adjustment. The initial assessment suggests that in FY83 any commitments for supplementary loans or expanded sectoral support activities can be accommodated within the approved Bank lending program because of the decline in new investment in numerous borrowing countries. For FY84 we will review lending requirements in the next few months and should any revision in the presently planned Bank commitment level of $11.9 billion be considered necessary we will make the appropriate recommendations in the FY84 Budget and Operating Program.

45. Regrettably, IDA resources remain severely constrained, and there is little scope for increasing commitments above presently planned levels. The steps designed to increase cost sharing will be less significant in IDA countries since IDA already finances a very high share of total costs. IDA countries can nevertheless benefit from the proposed program. With limited access to other resources, the shifts in the composition of IDA lending and more rapid disbursement should help ease the difficulties these countries face in dealing with the present problems.

46. Disbursements and Net Transfers. The Action Program will have a modest impact on disbursements in FY83, since only five months remain, but it will have a more significant effect in FY84 and FY85. It is not possible to be precise about the disbursement impact of the Action Program in advance of consultations with governments so the estimates below should be considered only broadly indicative.

Projected IBRD/IDA Disbursements and Net Transfers
($ million; percentage)

	FY83	FY84	FY85	Total
IBRD				
Disbursements without Action Program a/	7300	8300	9400	25000
Net Resource Transfers a/	2600	2550	2200	7350
Additional Disbursements from Action Program	150	1000	850	2000
Additional Net Transfers from Action Program	145	925	680	1750
Increase in Disbursements (%)	2	12	9	8
Increase of Net Transfers (%)	6	36	31	24
IDA				
Disbursements a/	2500	3000	3500	9000
Additional Disbursements from Action Program	-	150	100	250
Increase in Disbursements (%) b/	0	5	3	3

a/ Data from FY83 Financial and Operating Program, R82-167, May 1982.
b/ IDA's disbursements are only slightly higher than its net transfers because of the ten-year grace period on credits and the low service charge.

The estimated increase in IBRD disbursements attributable to the Action Program totals $2 billion over the FY83-85 period, an 8% increase in total projected disbursements for those years. Together with the previously planned increase in disbursements, this would mean a total increase in disbursements to developing countries of 25% in FY84 alone. More importantly, relative to estimated net transfers the increase is almost 25% over the three-year period, and over 35% in FY84. Since not all countries will be affected by the Action Program, the percentage increase for the countries that do benefit will of course be larger.

47. IBRD Borrowings. The major impact of the Action Program on the Bank's financial position would be on the borrowing program. Borrowings would have to be increased in order to finance the additional disbursements. However, to the extent that at least part of the additional disbursements in FY83-FY85 are accelerations of current plans, these increases would be offset by lower borrowings in later years. Adding the Action Program to the most recent projections of Bank cash needs over the next three years, we now estimate that borrowings in the FY83-85 period will need to be increased by about $1.6 billion above the $30.2 billion level indicated in the FY83 Financial and Operating Program Memorandum.

IBRD Gross Borrowings
($ million)

	FY83	FY84	FY85	Total
Borrowing Program in FY83 Budget	9000 a/	9800	11400	30200
Proposed IBRD Borrowing	9800	10500	11500	31800
Increase	800	700	100	1600

a/ To compensate for a shortfall in the FY82 program, this amount was subsequently raised to $9350 million.

Source: FY83 Financial and Operating Program, R82-167, May 1982.

48. The proposed phasing of this additional borrowing takes account of the fact that our borrowing program for FY83 is already well advanced. Moreover, since we anticipate some firming of US dollar interest rates in FY84 and since estimates for disbursements under the Action Program are at best uncertain and could be higher than presently anticipated, there is a case for concentrating the additional borrowings in the early part of the FY83-85 period. While the start-up of the Action Program makes estimates of the Bank's future cash needs more uncertain than usual, the phasing is also expected to be consistent with maintaining the Bank's liquid holdings at or about 40% of the following three year's net cash requirements, as provided under our current liquidity policy.

49. To complete the increased borrowings in FY83 and FY84 at minimal cost, it is desirable to raise the present $1.5 billion ceiling on short-term borrowing. Our current best estimate is that it may be desirable later in June to consider raising the ceiling to $3 billion in connection with the enlarged FY84 borrowing program. In the meantime, it is proposed that the ceiling be raised to $2 billion for FY83. In FY84 the composition of an enlarged borrowing program - and its average cost - would depend on the decisions of the authorities in various capital markets regarding the degree of Bank access to their markets for new issues as well as for swap transactions.

50. The average cost of borrowing may go up slightly since much of the incremental borrowing would be in US dollars or in other currencies with a nominal cost higher than the average cost of the current program. Whether there is an increase in cost, and its size, will be determined by the maturities of the borrowings, and whether short-term rates continue to remain significantly below long-term rates.

51. IBRD Capital. The implications of the Action Program for IBRD capital requirements need to be considered in the light of both the requirements of the Bank's Articles and the the Bank's existing policy on the

timing of capital replenishment. 1/ Under the Articles of Agreement 2/ the Bank must not increase its loans (on a disbursed basis) beyond the level of its total subscribed capital and reserves. Given presently planned IBRD commitment levels for FY83 and future years, this limit would be reached in the early 1990's - probably in FY91 or FY92. Since loans that have already been committed would be virtually fully disbursed by that time under normal disbursement patterns, the part of the Action Program which results in accelerated disbursements under past commitments should have a negligible impact on the total volume of IBRD loans then outstanding. Hence, this part of the Program would not alter the date when additional capital is required under the Articles. The restructuring of the commitment program - both the shifts toward faster disbursing loans and the possible modest increase in overall commitments in FY84 - could have a modest impact on disbursed loans and the sustainable level of lending. But this impact would be very minor if commitments return to presently planned levels in FY85 and FY86 and would be offset by the fact that repayment schedules for supplementary loans would be incorporated in the schedules for the corresponding original loans. The net effect should be to leave capital requirements essentially unchanged.

52. IBRD Net Income. There are two aspects of the Action Program, which could affect net income FY84 and FY85 negatively: (a) if the Bank's FY83 income allocation is immediately transferred to IDA (see below); and (b) the accelerated disbursements reduce commitment fees. The difference could be on the order of $20-25 million in FY84 and $30 million in FY85. Were there to be an increase in the nominal cost of borrowing, the Bank's pool-based lending rate could also be higher, but the change would be unlikely to exceed a few basis points.

53. IDA. In the present circumstances, it will be difficult for IDA to finance even the relatively modest volume of accelerated disbursements implied by the Action Program. IDA disbursements are financed through calls on donors, 3/ and donors already face severe problems meeting existing calls because of current budget constraints. In these circumstances, any action which leads to additional budget expenditure in the near term is bound to be controversial and runs the risk of adversely affecting the negotiation for the

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1/ During negotiations for a selective Capital Increase in 1976, the Executive Directors approved a management recommendation that the levels of Bank operations be planned in a way that in the "absence of...a further [capital] increase, future adjustments of plans [should not be] so large as to substantially distort or disrupt operations." The intention behind the policy is to avoid a situation in which member governments would either have to approve an increase in IBRD capital or accept a disruptive adjustment in IBRD operations. The level of lending arising from this policy is called the sustainable level of lending.

2/ Article III, Section 3 of the Bank's Articles requires that loans (and guarantees) not be increased beyond the total of subscribed capital and reserves.

3/ Specifically, IDA encashes the notes which are deposited by donors as part of each IDA Replenishment.

next replenishment of IDA resources. IDA's tight cash position does not permit it to finance the disbursements out of funds already on hand. However, a transfer of the Bank's FY83 income allocation to IDA immediately after the Bank makes the allocation would provide additional disbursement capacity.

IV. Conclusions and Recommendations

54. The proposed Action Program is another step by the Bank to assist its members in dealing with an extraordinarily severe economic environment which has persisted very much longer than anticipated. Like the other steps - the original SAL program, expanded recurrent cost financing, more flexible use of retroactive financing, new cofinancing techniques - the Action Program by itself will not solve the problems of our members. No single institution has the capacity to do that. But together with the other measures taken by us, the responses of bilateral donors and other international organizations, the Action Program will make an important contribution. Of course, the increased resource transfers are small compared with the external financing requirements of the developing countries. But that is not the proper yardstick. In the individual countries which receive support for an effective program of policy change in an inhospitable environment, the Action Program will make a significant contribution to removing financial bottlenecks to project completion, to maintaining existing plant and infrastructure and to helping ensure a proper balance between meeting urgent current needs for production and continuing to invest for the future.

55. And if what we are proposing now is insufficient - either in volume or in terms of flexibility - we will be obliged to consider further steps. The Bank must do whatever it can, consistent with the need for prudent financial management and with its high standards of quality, to help countries continue their efforts to restore growth, reduce poverty and to minimize the adverse impact of today's conditions on future generations.

56. To initiate the Action Program, we are recommending now only that the Board approve an increase in the FY83 Borrowing Program to $9.8 billion, and that it increase the FY83 ceiling on the short-term discount note program to $2 billion. The commitment levels and the borrowing program for FY84 and subsequent years will be examined carefully over the next few months in light of consultation with borrowers on specific Action Program operations. These proposals will be reviewed in the normal way in the context of the FY84 program and budget discussions. In order to help fund the acceleration of IDA disbursements, we would expect to recommend in July that the Executive Directors approve IDA's immediate drawdown and use of the Bank's FY83 net income allocation as soon as the allocation is made.

57. We will proceed with the Action Program and provide the Executive Directors with an initial assessment at the end of 1983, by which time it should be possible to foresee better the economic situation for 1984 and, consequently, whether additional special actions will be required or the proposed program continued. As the Program is implemented, President's Reports for loans to countries within the Program will summarize the nature of the special actions being taken.

OFFICE MEMORANDUM

DATE August 12, 1983

TO Operational Vice Presidents

FROM Ernest Stern, SVPOP

SUBJECT Interim Status Report on Special Assistance Program

Attached is an Interim Status Report on the Special Assistance Program, for your information. Please convey any comments you may have to Mr. Rajagopalan -- particularly regarding the proposed outline for the Board paper in Section III.

If anyone wishes to discuss the paper at an OVP meeting please let Ms. Pratt know.

I want to draw your attention also to paragraph 16, and its associated attachment 4. It remains a mystery why it always proves so difficult to have simple procedures complied with. The information requested is minimal and the need for such aggregate data obvious. Some attention by managers to guidelines and institutional requirements would help a lot. I would like to receive retroactively the pro forma for those projects listed in attachment 4 as having no data submitted.

ES/jh

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice President, Operations
S. Shahid Husain, Vice President, OPS

DATE: August 10, 1983

FROM: V. Rajagopalan, Director, PAS

SUBJECT: Special Action Program: Interim Progress Report for the Period ending June 30, 1983

1. Following the Board approval of the Special Action Program (SAP), guidelines for implementation were issued on March 3, 1983 covering country criteria for eligibility, selection of projects for increased cost-sharing, the design of assistance measures for the selected projects and procedures to be used for their processing. Attached is an interim progress report covering the period up to June 30, 1983. It is based on the data supplied by the Regions in response to my memorandum of May 5, 1983 to the Regional Program Coordinators. The report is organized as follows: Section I provides a summary overview of SAP activities which have been already approved or are under consideration for approval in FY84. Section I also discusses a number of issues concerning classification and impact assessment of the SAP activities. Section II reviews the experience so far with the procedures established for processing of SAP activities and makes suggestions for some further simplification and streamlining. The third section gives an annotated outline of the topics that might be covered in the progress report on SAP up to December 31, 1983 that should be provided to the Board.

I. An Overview of SAP Activities

2. As of June 30, 1983 a total of 20 countries--six in LAC, eight in West Africa, three in East Asia, two in East Africa, and one in EMENA--have "benefitted" from SAP (Attachment 1). The "actions" approved for these countries include:

(a) Four new loans ($670M)

- A SAL in Yugoslavia ($275M);
- A Reconstruction Import Credit for Ghana ($40M);
- An Export Development Project in Mexico ($350M); and
- A Fertilizer Import Credit for Malawi ($5M).

(b) Modifications to 19 new projects[1]/

- Increased cost-sharing in seven projects;
- Revolving funds in six projects;

1/ More than one modification in some projects.

- Financing of working capital/recurrent costs in four projects;
- Front-loading of disbursements in four projects; and
- Increased loan amounts in four projects ($240M).

(c) Modifications to 21 ongoing projects1/

- Revolving funds for five projects;
- Increased cost-sharing for 14 projects; and
- Restructuring of five projects.

3. As for the future program, according to the Regional reports, SAP activities are being considered for 35 countries. This would bring the total number of benefitting countries to 45 -- 13 in LAC, 16 in West Africa, 8 in EMENA, 4 in East Asia, 3 in East Africa and 1 in South Asia. The "actions" proposed for FY84 include:

(a) Seventeen new loans amounting to about $1,740M:2/

- Two SALs: Panama ($60M), Honduras ($80M);
- Seven Sector Loans: Yugoslavia Fertilizer ($80M), Morocco Industry ($150M), Romania Imports ($200M), Brazil Agriculture Sector ($303M), Brazil Industry ($352M), Colombia Power ($110M), Zambia Agriculture Imports (?); and
- Eight Supplementary Loans: Yugoslavia Mostar ($61M), Romania ($125M), Mexico Agriculture Projects (?), Brazil Agriculture Projects ($27.6M), Barbados Education ($3M), Philippines ($120M), Bangladesh ($60M), Guyana Forestry ($6.8M).

(b) Modifications to about 35 new projects3/

- Increased cost-sharing in 15 projects;
- Revolving funds for 15 projects;

1/ More than one modification in some projects.

2/ Excluding proposals for which no amounts have been indicated.

3/ More than one modification in some projects. Numbers are tentative.

- Front-loading of disbursements in ten projects;
- Financing of working capital/recurrent costs in five projects; and
- Increased loan amounts in three operations ($140M).

(c) Modifications to about 80 ongoing projects[3]/

- Increased cost-sharing for about 60 projects;
- Revolving funds for about 20 projects; and
- Restructuring of about 15 projects.

4. Total SAP commitments during FY83 amounted to about US$910M. In addition, another $1.9 billion are projected to be committed for SAP activities during FY84. Not all of the planned commitments may, however, materialize. Nevertheless, the incremental disbursements up to end FY85 because of SAP commitments in FY83 and FY84 might reach $2.0 billion--a figure substantially in line with the estimates in the Board paper on SAP.

5. The number of operations mentioned above are indicative and should be interpreted with caution. As the Regional submissions point out, there is a significant element of arbitrariness involved in defining what should or should not be classified as SAP activities. A number of SAP-type activities (e.g., restructuring of 11 ongoing agricultural projects in Nigeria) approved during preparation of the Board Paper on SAP (presumably anticipating approval of the program), could, for example, legitimately be considered part of SAP. On the other hand, some of the activities now classified as part of SAP might have been implemented even without the SAP. This would apply in particular to revolving funds the use of which had been increasing under normal operations even before the SAP was introduced.

6. Assessing the impact of SAP activities on commitments and disbursements is even more difficult as it requires the determination of commitment and disbursement levels in the "without" SAP scenario.

7. To maintain Bank-wide consistency and to avoid unnecessary refinements, it is suggested that the following criteria be adopted for determining whether or not a particular activity should be classified as SAP:

(i) All SAP-type actions approved after consideration of the SAP paper by the Board (i.e., February 22, 1983) will be included in the SAP but "actions" taken prior to that date will be excluded.

(ii) Benchmark for deciding additionality due to SAP will be the lending program included in the PAB Table IVa of January 28, 1983. Any exception to this will require SVPOP approval.

3/ More than one modification in some projects. Numbers are tentative.

The SAP classification in Attachments I and II are in accordance with the above criteria.

8. As regards impact on disbursements, a possible approach could be:

(i) for new operations brought into the lending program because of SAP, all disbursements may be ascribed to SAP,

(ii) for new or ongoing projects involving modifications because of SAP, separate disbursement estimates should be made "with" and "without" the SAP elements and the increment should be allocated to SAP; and

(iii) for projects which are reduced/deleted/shifted from the normal program due to introduction of SAP, estimates of disbursements "foregone" should be made using standard disbursement profiles and that should be netted out in working out the SAP impact.

9. Since in most SAP countries only a few projects are likely to be changed, the additional work required in terms of 8(iii) above should be manageable.

II. Procedures for Processing SAP

10. According to the guidelines issued for SAP implementation, processing of special action involves two main steps:

- Approval by SVPOP of country eligibility and of the proposed SAP program in outline;

- Preparation of detailed project-specific proposals for approval by RVP/Board as appropriate.

The experience in these regards is discussed below.

Country Eligibility

11. Out of the 45 countries for which special actions have been approved or are being considered, eligibility of 16 countries (Attachment III) has been reviewed by SVPOP based on Regional proposals. Another dozen countries or so can be considered to have prima facie eligibility for SAP as they either have an ongoing SAL in good standing (e.g., Ivory Coast, Turkey) or preparation of future SAL is in an advanced stage (e.g., Panama) or they face no major policy issues (e.g., Colombia). For the remaining countries, eligibility can be determined only after a more detailed review of the country situation. This last group includes six countries (Kenya, Dom. Republic, Paraguay, CAR, Upper Volta, and Nigeria) for which some SAP elements have already been introduced during FY83. Most of the actions in these countries involved establishment of revolving

funds for ongoing project or increased cost-sharing through a reduction in project scope. Nevertheless, it appears that so far the processing of country eligibility under the program has been rather unsystematic and requires some further streamlining.

12. In order for CPD to be in a position to advise OPSVP/SVPOP on country eligibility as required under the SAP Guidelines, while maintaining sufficient flexibility and minimizing the Regional workload, it is proposed that:

(a) for countries where the SAP proposals are limited to establishing revolving funds and/or front-loading of disbursements, CPD should be informed in advance of the intended actions and the country eligibility deemed to be approved if CPD does not object within three working days following receipt of appropriate information from the Region;

(b) for countries with other SAP proposals, the current procedures as per the Guidelines will apply; CPD after consultation with the Regions as necessary, will provide written comments on country eligibility to the SVPOP, with copy to the Region, within five working days following receipt of the Regional requests.

13. Based on the Regional proposals for future SAP operations in countries where the SAP eligibility has not been reviewed by CPD, CPD will examine shortly the case of each country concerned and, based on existing information, inform the Regions whether country eligibility requires further review. Where necessary, the Regions will be asked to submit a formal request to CPD.

14. It is possible that over time some of SAP eligible countries may become ineligible due to inadequate compliance with the agreed conditionality. To ensure continued monitoring of eligibility, it is recommended that the Regions should inform CPD, as soon as possible, of changes in country or project conditions that, in their judgement, would warrant a new look at the case.

Design of Specific Actions

15. Since all SAP activities involving new operations go through the normal review process in the Bank, there are no unusual problems in managing the quality of such operations. The only item worth reiterating is the need to indicate clearly in various documents (IP/DMs, SARs, and PRs) the SAP elements of the operation.

16. Less clear is the effectiveness of the process for designing and reviewing modifications to ongoing projects. According to the guidelines, for each project to be modified, a summary proforma is required to be prepared for RVP approval with information copies to SVPOP, OPSVP and the Sector Department. The amendments made were also to be reported to the

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Annual Coordination Meeting (1983)

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Mr. Masaharu Shimizu	Deputy Division Chief Direct Loan Division Loan Department III (The Americas: Ships and Aircraft
Mr. Kazuo Imai	Deputy Division Chief International Relations Division Administration Department
Mr. Satoru Madono	Deputy Division Chief Direct Loan Division Loan Department II (Europe, Middle East & Africa)
Mr. Yoshito Kimura	Chief Representative in Washington, D.C.
Mr. Katsutake Matsuoka	Deputy-Chief Representative
Mr. Asao Egawa	Representative

Board as part of the monthly report on Bank operations. Out of the 19 ongoing projects[4/] for which modifications have been made in FY83, summary proformas were received by OPSVP for only four of them (Attachment IV). The bases for decisions in other cases are unclear and it is difficult to judge either the priority of the selected projects or the appropriateness of the proposed measures and conditionalities. There is clearly a need for ensuring systematic information flows to OPSVP so that the progress report to the Board may be prepared adequately addressing the various concerns expressed by the EDs during approval of the SAP. There is also a need for improved reporting to the Board on SAP activities; a review of the Monthly Operational Summaries for the past several months indicates practically no reference to amendments made to ongoing projects under the SAP.

III. Outline of the Board Paper

17. It is proposed that the Report to the Board in January 1984 cover the following aspects:

- Country coverage: The nature of the adjustment efforts being made and policy reform being implemented by the SAP 'beneficiaries'. The main data source for this section will be the Regional submission to CPD for review of country eligibility.

- Key features of the SAP activities: A somewhat expanded version of Section II of this report describing the nature of the approved programs, the criteria used in selection, and the main conditionality. Would include classifications by type, income groups, and sector. Also comments upon extent of local cost financing and retroactive financing. The data sources for this section will be the SARs/PRs for new operations and summary proformas for modification to ongoing operations.

- Program impact: The basis for classification and impact assessment. Impact on resource transfer (commitments and disbursements), project implementation schedules and resolution of key implementation problems. Likely impact on project implementation beyond 1985 (e.g., extent of future financing gaps), likely decline in future disbursements due to front-loading. Data source will be the SARs/PRs, summary proformas as well as disbursement information

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4/ Excluding two projects where Board approval was obtained for modifications.

from Controller's. May also include perceived impact, if any, on actions of other donors/commercial lenders.[Source: ?]

- Lessons of experience and recommendations for future. Selection and design issues, procedural aspects, future program in light of the global macro outlook. This section will reflect analyses by CPD, ERS, and PAS.

Attachments

Cleared with Mr. de Azcarate (CPD)

PG/VR:lph

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART I: ACTIONS APPROVED AS OF 06/30/83

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
LAC							
1. Brazil	03/09/83	-	Working capital in 3rd Agro-Industry Project. Loan increased from $250M to $400M	-	$150M	FY84 $75M FY85 75M	-
2. Chile	04/12/83	-	Front-loading of disb., Rev. Fund. Second Highway Project.	-	-	FY84 $8.4M FY85 $4.7M	-
3. Dom. Republic	04/13/83	-	-	Amendments to 3 projects (Rev. Funds, change in scope, cost-sharing)	-	?	- Proformas? - Country eligibility?
4. Mexico	04/26/83	Export Dev. Project $350M.	- Front-loading of disb. Water Supply III - Cost-sharing Ag. Marketing - Cost-sharing, working capital in SMI III	- Increased cost-sharing in 3 projects - Reallocation to procure urgent spares and finance working capital in 2 projects	$350M	-	- Classification of Ex. Dev. Project -Proformas on modifications?
5. Paraguay	?	-	Front-loading of disb. in Ag. Credit Project	-	-	FY84 $2.0M FY85 5.0M FY86 0.5M	Country eligibility?
6. Peru	04/14/83	-	Working capital in 6th Ag Credit. Loan increased from $65M to $130 M.	-	$65M	FY84 $15M FY85 19M FY86 16M FY87 23M FY88 3M	

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART I: ACTIONS APPROVED AS OF 06/30/83

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
EMENA							
1. Yugoslavia	06/15/83	SAL $275.0M	–	Increased cost-sharing in 3 projects (from savings)	$275.0M	FY84 - $275M	–

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART I: ACTIONS APPROVED AS OF 06/30/83

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
EAST ASIA & PACIFIC							
1. Indonesia	04/13/83	-	- Cost-sharing: Increased to 60% of total for East Java Water Supply and to 65% for Public Works Manpower Dev. Reduced project scope. - Front-loading of dis. for Power XIII.	-	-	?	
2. Philippines	04/13/83	-	-	Setting up an $8.0M Rev. fund for Ind. Finance Apex Project.	$50.0M	?	SAL increase not considered part of SAP. (No increment over benchmark)
3. Thailand	04/13/83	-	- Cost-sharing: Increased from 47% to 60% in Second Provincial Roads. - Rev. Fund ($7.0M) in Second Agricultural Credit.	-	$21.7M	?	
SOUTH ASIA							
None.							

SPECIAL ACTION PROGRAM. PROGRESS REPORT AS OF 06/30/83

PART I: ACTIONS APPROVED AS OF 06/30/83

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
East Africa							
1. Kenya	–	–	Rev. Fund: National Ext.	–	–	?	Ongoing SAL. Eligibility will depend upon 9/83 review of SAL progress.
2. Malawi	–	Smallholder Fert. $5.0M. Also includes a Rev. Fund	–		$5.0M	FY84 $3.2M FY85 1.1M FY86 0.4M FY87 0.3M	Ongoing SAL in good standing.

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART I: ACTIONS APPROVED AS OF 06/30/83

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
West Africa							
1. CAR	?	-	Rev. Funds for Ed II and Rural Dev. Proj. Also recurrent-cost financing in latter	Rev. Fund: Livestock Project	?		Country eligibility?
2. Ghana	?	Reconst. Import Credit $40M	-	Increased cost-sharing: Second NIB	$40.0M	?	-do-
3. Ivory Coast	-	-	Cost-sharing raised from 80% to 95% in Rubber IV Project		?	?	Ongoing SAL in good standing
4. Mali	?	-	-	- Rev. Fund Ind. Sector Dev. Project. - Increased cost-sharing ODIPAC TA Project and Road Maintenance Project.	?	?	- Prima facie case for eligibility. - Econ. Man. & Training approved in Dec. 82 not part of SAP.

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
West Africa							
5. Niger	?	–	Cost-sharing: 95% financing for Highways IV	–	?	?	Prima facie case for eligibility.
6. Nigeria	?	–	–	Increased cost-sharing in Power VI	–	?	- Changes in 11 other projects approved prior to Board consideration of SAP paper. Hence not part of SAP. - OPD not consulted on country eligibility.
7. Togo	–	–	- Rev. Fund: TA II. - Increase in SAL from $37.3M to $40.0M.	Increased cost-sharing in Ed I and Highways IV	–	?	Ongoing SAL in good standing.
8. Upper Volta	?	–	–	Cost-sharing increased from 83% to 89% in the Forestry Project	?	?	- Haut Bassins and Koudougou Projects approved in 7/82 not part of SAP. - Country eligibility?

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART II: ACTIONS BEING CONSIDERED FOR FY84

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
LAC							
1. Argentina	?	-	-	Reallocation of $50M to finance working capital in Ind. Credit Ln. II.	-	FY84 50.0M	Country eligibility?
2. Barbados	05/26/83	Supp. Ln. $3M for Ed. projects.	-	-	$3.M	?	
3. Brazil	03/09/83	- Supp. Ln. for 2 Ag. projects $27.8M. - Ag. Sector Ln. $303M. - Ind. Sector Ln. $352M.	Front-loading of two projects.	Increased cost-sharing for 25 projects.	$682.6M	?	
4. Colombia	01/12/83	Power Sector Ln. $110M.	-	-	$110M	?	- Country Eligibility? - "A" Ln. $ 90M. "B" Ln. $150M of which Bank $20M.
5. Costa Rica	?	-	Increased SAL from $75M to $80M.	-	5M	FY84 1M FY85 4M	Country eligibility to be based on SAL currently under preparation.
6. Guyana	07/29/83	Supp. Ln. $6.8M Forestry Project.	-	-	6.8M	?	
7. Honduras	?	SAL 80M.	-	-	80M	FY84 50M FY85 30M	Country eligibility?

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
8. Mexico	04/26/83	Supp. In. for Ag. projects.	–	Amendments to 8 Ag. projects.	?	?	Eligibility for Ag. projects conditional on Govt. actions.
9. Panama	05/20/83	SAL: $60M.	–	–	$60M	?	Country eligibility to be based on SAL currently under preparation.
10. Peru	04/14/83	–	SAL increased from $115M to $200M.	Rev. funds, front-loading, reallocations for seven projects.	$85M	?	

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART II: ACTIONS BEING CONSIDERED FOR FY84

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
EMENA							
1. Morocco	?	Ind. Sector Ln. $150M	Rev. Funds.	Rev. Funds.	$150M	?	Country eligibility only for Rev. Funds. Eligibility for Ind. Sector Loan to be reviewed later.
2. PDRY	?	–	Rev. Funds and front-loading	–	–	?	Country eligibility?
3. Portugal	?	–	Higher cost-sharing through reduced scope.	–	–	?	-do-
4. Romania	07/83	– Suppl. Loan) $325M – Import Loan)	–	–	$325M	?	Country eligibility approved in principle.
5. Tunisia	06/09/83	–	–	Rev. Funds.	–	?	Country eligibility only for Rev. Funds.
6. Turkey	–	–	$4.0M Rev. Fund in FY84 projects.	–	–	?	Ongoing SAL in good standing.
7. YAR	?	–	Rev. Funds and front-loading	–	–	?	Country eligibility?
8. Yugoslavia	06/15/83	– Fertilizer Sector Loan $80.0M – Mostar supp. Loan $61.0M	–	–	$141M	?	

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART II: ACTIONS BEING CONSIDERED FOR FY84

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
EAST ASIA & PACIFIC							
1. Indonesia	04/13/83	–	Cost-sharing for Ag.and social sectors to be raised to 60% of total by reducing project scope.	Amendments to several projects.	–	?	
2. Laos	04/13/83	–	Use of Rev. funds.	–	?	?	
3. Philippines	04/13/83	Supp. Loans (Total $120M) to be processed in second quarter of FY84.	–	Amendments to 19 projects during Aug. 84.	$120.0M	?	Request for retroactive application of increased cost-sharing.
4. Thailand	04/13/83	–	Increased cost-sharing being considered for five projects.	Increased disb. rate on Tree Crop II.	?	?	
SOUTH ASIA							
1. Bangladesh	?	Supp. Credit (Total $60M) to be processed in FY84.	–	Recommitment of $12.0M savings from Jute project.	$60.0M	?	Country eligibility to be established but prima facie case.

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART II: ACTIONS BEING CONSIDERED FOR FY84

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
East Africa							
1. Malawi	-	-	Rev. fund for Highways V.	- Rev. fund for 5 projects. - Higher cost-sharing for one project.	-	?	Ongoing SAL in good standing.
2. Zambia	?	Ag. Import Ln.	-	- Rev. funds for 4 projects.	?	?	Region preparing request for Country eligibility.

SPECIAL ACTION PROGRAM: PROGRESS REPORT AS OF 06/30/83

PART II: ACTIONS BEING CONSIDERED FOR FY84

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
WEST AFRICA							
1. Benin	?	-	Rev. fund for Feeder Roads III project	-	?	?	Country eligibility?
2. Chad	?	-	Rev. fund, front-loading of Rehab. Program Credit.	-	?	?	- do -
3. Equatorial Guinea	?	-	Rev. fund in Cocoa/Coffee rehab. project.	-	-	?	- do -
4. Gambia	?	-	Financing non-incremental costs second Ag. Dev.	-	?	?	- do -
5. Guinea	?	-	Front-loading, recurrent cost financing. Highways III.	-	?	?	- do -
6. Ivory Coast	-	-	SAL (FY84) increased from $200M to $250M.	-	$50M	?	Ongoing SAL in good standing.
7. Liberia	05/23/83	-	-	Rev. fund for SMI project.	?	?	Eligibility only for Rev. funds.
8. Mauritania	?	-	Rev. fund, TA Rural Sector.	-	?	?	Country eligibility?

Region/Country	Date Eligibility Approved	New Loans	Modifications to New Loans	Modifications to Ongoing Loans	Impact on Commitments	Impact on Disbursements	Remarks
9. Nigeria	?	-	Increased cost-sharing, Rev. funds, front-loading for three projects. (Kaduna ADP, Southern Borno ADP, Sokoto Health)	Amendments to 4 projects.	?	?	- Country eligibility? - Fert. Import Loan \$250m in Table IVa of 1/83. Hence not classified SAP.
10. Senegal	?	-	- Rev. funds in two projects (Rural Dev., Highways V). - Recurrent costs, front-loading in Highways V.	-	?	?	Eligibility under consideration.

PROGRESS REPORT ON SPECIAL ACTION PROGRAMS

REGION	COUNTRY	REGION'S REQUEST TO MR. STERN/CPD	CPD COMMENTS	MR. STERN'S DECISION	COMMENTS AND OPERATIONS FOR WHICH ELIGILITY APPROVED
EAST AFRICA	None				
WEST AFRICA	Liberia	5/83	Recommended on 5/19 approval of: (a) revolving fund; (b) speeding up of disbursements for various projects.	Approved 5/23/83.	Limited to revolving funds.
	Senegal	7/8/83	Recommended on 7/26/83 approval of: (a) financing of recurrent maintenance or rehabilitation costs; (b) provision of a line of credit to finance rehabilitation programs in the parapublic sector; (c) an increase in IDA allocation; and (d) reprogramming of some existing funds.	Awaiting decision.	
EMENA	Morocco	7/14/83	Recommended on 7/19/83 approval of: (a) revolving funds; and (b) increased cost sharing to 60 percent for various loans.	Approved for revolving funds only.	
	Romania	Sent directly to Mr. Stern 7/1/83.		Approved in principle.	SAP operations requested by Region: 1. Supplementary loans for 3 projects: (a) Land Transport; (b) Power IV; and (c) Enhanced Oil Recovery (but not supported by Energy Department for SAP). 2. An input import loan for FY84. Total 1 + 2 = $325 million
	Tunisia	5/25/83	CPD recommended approval 6/6/83 for: (a) revolving fund; and (b) supplementary loan for Sidi Salem multipurpose project.	Approved 6/9/83	Mr. Stern limited SAP to revolving funds.
	Yugoslavia	Sent directly to Mr. Stern 6/83		Approved 6/15/83	Mr. Stern left it up to PAS/CPD as to which projects would be SAP eligible.

LAC	Barbados	6/17/83	Recommended approval 6/23/83.	Awaiting decision.	
	Brazil	5/83		Implicit approval.	
	Chile		Recommended approval 4/83.	Approved 4/83.	SAP Project: Second Highway Reconstruction Project with Front End Loading.
	Guyana	7/18/83	Recommended approval 7/26/83 subject to: (a) establishment of a stabilization program with the Fund to correct exchange rate distortions; (b) strengthening of the country's export potential; (c) acceleration of reforms for public enterprises; and (d) rationalization of public sector investment to be advanced.	Approved 7/29/83	Approved for one loan: supplemental financing for Upper Demerara Forestry Project.
	Mexico	4/11/83	Recommended for approval as per Region's request 4/26/83.	Approved 5/83.	Approved for following projects: (a) capital goods loan; (b) export development; (c) revolving funds; (d) two ongoing water/sewerage loans; (e) railway loan; (f) urban development; and (g) small, medium industries loan.
	Peru	4/7/83	Recommended approval 4/14/83.	Approved 4/26/83.	Approved for (a) increase in an agricultural credit project from \$65m to \$125 m (b) increase in SAL from \$115m to \$200m
EAST ASIA/PACIFIC	Laos	4/1/83	Recommended approval 4/13/83.	Approved 4/83.	
	Philippines	4/1/83	Recommended approval 4/13/83.	Approved 4/83.	SAPs for all four countries were requested at the same time. No set procedure was followed at the time.
	Thailand	4/1/83	Recommended approval 4/13/83.	Approved 4/83.	
	Indonesia	4/1/83	Recommended approval 4/13/83, subject to the satisfactory outcome of the public investment program.	Approved 4/83.	

CPD
August 3, 1983

SPECIAL ACTION PROGRAM

Modifications Approved During FY83 to Ongoing Projects

Region/Country	Project	Modifications	Date Approved	Proforma to OPSVP
LAC				
1. Dom. Republic	(a) Education II (Loan 1142)	Reduction in scope; civil works cost-sharing increased from 35% to 70%.	06/22/83	No
	(b) Second Roads (Loan 1784)	Change in project scope; Rev. Fund for $4.6 milion	04/20/83	Board Paper
	(c) Cocoa/Coffee Rehabilitation (Loan 2023)	Rev. Fund $2.0 million	04/13/83	No
2. Mexico	(a) Med. Cities Water Supply (Loan 1186)	Increased cost-sharing from 42% to 70%.	?	No
	(b) Med. Cities Water Supply II (Loan 1913)	-do-	?	No
	(c) Second Urban/Reg. Dev. Project (Loan 1990)	Increased cost-sharing from 35% to 70%.	05/02/83	Yes
	(d) Railways IV (Loan 1929)	Restructuring to procure spares for $23.0 million	?	No
	(e) Capital Goods Dev. (Loan 2142)	Restructuring to finance $100 million of working capital.	04/01/83	Board Paper
EMENA				
1. Yugoslavia	(a) Highways X (Loan 1678)	Increase cost-sharing from 30% to 43%.	06/09/83	Yes
	(b) Highways XI (Loan 1819)	Increase cost-sharing from 16% to 33%.	06/09/83	Yes
	(c) Earthquake Rehabilitation (Loan 1768)	Restructuring; cost-sharing for civil works increased to 96%.	06/09/83	Yes
EAST ASIA				
1. Philippines	Ind. Finance (Apex) (Loan 1984)	$8.0 million Rev. Fund	05/07/83	No

Region/Country	Project	Modifications	Date Approved	Proforma to OPSVP
WEST AFRICA				
1. CAR	Livestock (Credit 894)	Rev. Fund of $0.5 million.	05/23/83	No
2. Ghana	Second NIB (Credit 901)	Increased cost-sharing.	?	
3. Mali	(a) ODIPAC TA (Credit 117-4)	Cost-sharing increased from 55% to 70%.	03/30/83	No
	(b) Ind. Sector Dev. (Credit 986)	Rev. Fund of $0.5 million.	05/17/83	No
	(c) Road Maintenance (Credit 1104)	Coat-sharing increased from 25% to 40%.	05/04/83	No
4. Nigeria	Power VI (Loan 2085)	Increased cost-sharing	06/10/83	No
5. Togo	(a) Education I (Credit 1018)	Increased cost-sharing	03/14/83	No
	(b) Highways IV (Credit 1139)	Increased cost-sharing	03/26/83	No
6. Upper Volta	Forestry (Credit 982)	Increased cost-sharing from 83% to 89%.	06/06/83	No

Record Removal Notice

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File Title World Bank program of special assistance to member countries - Correspondence	**Barcode No.** 1085608

Document Date February 22, 1983	**Document Type** Board Record

Correspondents / Participants

Subject / Title
Board Meeting on Program of Special Assistance - Opening Statement

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	15-Feb-17

Record Removal Notice

File Title
World Bank program of special assistance to member countries - Correspondence

Barcode No.
1085608

Document Date
April 8, 1983

Document Type
Board Record

Correspondents / Participants
From: The Vice President and Secretary

Subject / Title
Summary of Discussions at the Meeting of the Executive Directors of the Bank and IDA, followed by the Meeting of the Executive Directors of the Bank and IDA and the Board of Directors of IFC, February 22, 1983.

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	15-Feb-17

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

M. Cherrick

DATE: February 11, 1983

TO: Mr. S. Shahid Husain
Through: E. Bevan Waide, Director, CPD
FROM: Sidney E. Chernick and Alexander Shakow, CPD

EXTENSION: 60121

SUBJECT: Questions on World Bank Program of Special Assistance to Member Countries, 1983-84

As of today, we have had the following questions on the Special Assistance Program from Board members or their staffs.

(U.S.) Mr. Burnham and colleagues:

1. Expressed support for the program. Seen by the U.S. as a bridge to important policy changes by governments, but U.S. is concerned about a number of issues.

2. Given the institutional dynamics of the Bank, how can the program be "monitored", "controlled" and "terminated" without doing lasting damage to the high standards of Bank project work?

3. U.S. is skeptical that the program is really temporary.

4. How will the program be evaluated after a year and what criteria will be used to determine if it should be extended or ended?

5. How is country eligibility really to be determined; vagueness in the paper suggests that any country could be considered eligible.

6. How much of the eligibility issue depends on the status of the country's relationship with the IMF?

7. Aren't the changes on the project side quite radical? How will we avoid reducing project design standards and weakening important Bank principles and philosophy if we agree to more local cost or recurrent financing, for example?

8. How will the Board be consulted on details of the program's implementation? Will the President's Reports provide information in some cases after the actions have been taken? How will the program be monitored?

9. Paper appears to put most stress on financial aspects and not enough attention on the importance of policy and performance.

Mr. Camerasa (Mr. Zalduendo's office):

1. Requested detailed net transfer figures for countries in their constituency. (Referred to Mr. Applegarth.)

Mr. Lust (Mr. de Groote's office):

1. What would the size of the total FY83-84 lending program be if we did not undertake the Special Assistance Program - i.e., how much less would the Bank do based on our country-by-country estimates of reduced investment programs in borrower countries?

2. Would SALs continue to be contingent on IMF agreements being in place? Would such agreements be a requirement for "sector adjustment programs"?

3. Several detailed questions on current arrangements for retroactive financing, recurrent cost procedures, etc.

Mrs. Sun (Mr. Wang's office):

1. What additional commitments are envisaged in the Program for FY83 and FY84?

Mr. Kalfan (Mr. Soglo's office):

1. Asked for details on short-term borrowing implications of the Program.

2. Requested names of countries and amounts subject to rescheduling in FY81 and FY82. (Referred to Tom Klein, EPD)

Mr. Yamakawa (Mr. Yamaguchi's office):

1. Wanted background on the guideline of a 30% maximum of a country's lending program for SALs.

Mr. Subimal Mookerjee of the IMF phoned to suggest some minor changes in language on page 7, para. 21.

cc: Messrs. E. Stern
P. Applegarth

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Operational Vice Presidents

DATE: March 3, 1983

FROM: Ernest Stern, Senior Vice President, Operations

SUBJECT: Special Action Program: Guidelines for Implementation

The attached guidelines for implementation of the Special Action Program cover country criteria for eligibility, selection of projects for increased cost-sharing, the design of assistance measures for the selected projects and procedures to be used for their processing. PAS, CPD, or the Legal Department, as appropriate, should be consulted for any assistance required in following the procedures outlined.

Additional copies of the guidelines and the attachment may be obtained from Mrs. Hamilton, Ext. 73041, Room E-1028.

Attachment

cc: Mr. Hattori (CTRVP)
Mr. Goldberg (LEG)
Regional Projects and Programs Directors; Assistant Directors
OPS Directors
EIS Directors
Operational Division Chiefs

VR/lph

SPECIAL ACTION PROGRAM: GUIDELINES FOR IMPLEMENTATION

Introduction

1. The World Bank Program of Special Assistance to Member Countries, 1983-84, is discussed in the Board Paper R83-22, IDA R83-10 dated January 28, 1983. It entails an increase in policy advice to help countries strengthen their development programs, measures to accelerate disbursements on existing loans, and shifts in the pattern of new commitments in favor of quick-yielding investments, which generally also involve fast-disbursing operations. The special assistance will be available to countries which have an appropriate policy framework in place, where investment programs have been or are being adjusted to resource availabilities, where adequate efforts are being made at resource mobilization, or where the assistance can support appropriate policy changes and adjustment measures. The Program aims at enhancing the effectiveness of resource use in countries that are making a determined effort to implement appropriate policies for adjusting to the current economic crisis. The main elements of the Program are to:

(a) expand SAL--the size of SALs to be commensurate with the scope and complexity of the adjustment program being undertaken, even if this means that temporarily the SAL component will be a larger share of the country's lending program;

(b) increase sector adjustment lending to support implementation of appropriate policies and efficient use of existing productive capacity. Three general categories of such loans, utilized in the past, involve export development, rehabilitation and modernization of existing plants, and provision of current agricultural inputs as part of a broad program to modify the incentive structure;

(c) emphasize quick disbursing, short gestation maintenance and rehabilitation projects for Bank lending during 1983-84;

(d) support the completion of high priority on-going projects and programs, as well as new ones, through increased cost-sharing, increased rates of disbursements for the next two or three years offset by a reduction in the later years, and supplemental loans by the Bank;

(e) facilitate implementation of existing and new projects through increased use of revolving funds established by advance deposits from the Bank[1]/; and

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1/ See Mr. Stern's memorandum of January 26, 1982 to OVPs for details.

(f) finance in new projects a larger share of incremental recurrent costs/working capital requirements for the next 2-3 years offset by a sharper reduction in the later years.

2. No aspect of the Action Program involves a lowering of Bank standards of macro-economic and sectoral policy conditionality, creditworthiness or project related conditions. The increase in Bank participation or acceleration of disbursements under the Special Action Program should normally result in quicker implementation of projects and therefore should not lead to an extension of the closing date. Also, the Action Program does not involve a change in current policy that, as a rule, any savings, i.e., loan proceeds remaining after project completion, should be cancelled.

3. Since most of the measures proposed under the Special Program are merely intensification of regular Bank operations, no major changes in current operating procedures are necessary for their implementation. This note provides guidance on (i) country criteria for eligibility; (ii) selection of projects eligible for increased cost-sharing and design of assistance measures for selected projects; and (iii) procedures to be used for Bank processing of such measures.

Country Criteria for Eligibility

4. General guidance on country eligibility is provided in the Board paper of January 28, 1983, which states (in paragraph 44) that "the basic objective of the Action Program is to assist those countries seeking to deal effectively with the current adverse economic conditions...". What we need therefore are criteria for judging policy performance rather than economic performance. Such an evaluation needs to take into account both the country's stage of development and the magnitude of the problems with which it is confronted.

5. In each case, it will be necessary to identify the critical policies since these will vary with the circumstances of each country. In most countries, this will require an initial examination of the full range of relevant policy areas, including:

(a) Exchange rates, trade policies and the management of external borrowing and debt;

(b) Domestic resource mobilization, including fiscal and monetary policies, and the financial performance of public enterprises;

(c) The use of resources, including the quality of public investment, sector pricing policies, institutional effectiveness, and policies affecting the private sector.

6. For structural adjustment lending, the Bank has already established that eligibility requires a "strong and sustained commitment to

implementing a broad range of actions over several years".2/ In practice, this requirement has included precisely defined actions in all or most of the areas described above and prior adoption of a stabilization program with IMF support (a Standby or an EFF) or its equivalent. For sector adjustment loans, actions required have typically been limited primarily to measures aimed at enhancing incentives and efficiency in a particular sector. But, in addition, a key eligibility requirement for such lending has been either the absence of major macro-economic distortions (e.g., a grossly overvalued exchange rate or poor resource mobilization) or a willingness to take action on such issues. For increased cost sharing under the Special Action Program, the latter requirement should also apply. In addition, the country should be taking reasonable measures to reduce the public finance or foreign exchange constraint which created the need for this Special Action. Such measures would include efforts to increase exports, to improve resource mobilization, to cut back on low priority expenditures and to correct any serious imbalances in public investment.

7. The Regions should send CPD recommendations on country eligibility in the form of a short note addressing the considerations spelled out above. These would be reviewed by SVPOP to decide on the eligibility.

Project Selection

8. To provide timely assistance to our borrowers while maintaining the normal high standards of project analysis required by the Bank, careful attention must be paid to the selection of projects for assistance under the Special Program and to the design of specific assistance measures for individual projects. Normally, this will require a fairly recent supervision of the project by the Bank -- no more than six months prior to expected date of approval of special assistance. Based on the supervision mission findings, the project suitable for special assistance would have the following features:

(a) continued high priority in terms of the likely development impact including inter alia satisfactory economic returns on the entire project, appropriate institutional objectives and feasibility of adequate O&M allocations (including availability of imported spares and consumables) following project completion;

(b) presence of serious gaps in the financing plan with adverse implications for timely project implementation and for the likely development impact;

(c) absence of other major implementation problems (e.g. managerial, technical, political and procurement problems) and compliance with the key loan covenants.

2/ "Progress Report on Structural Adjustment Lending", April 8, 1982, SecM 82-314.

Alternatively, an agreed action plan for resolving such problems as a pre-condition for special assistance; and

(d) likelihood of early project completion (say, by June 1986) assuming resolution of financial problems and (where appropriate) implementation of the agreed action plan. However, projects which are very close to completion should not be selected.

9. Principally, the increased cost-sharing by the Bank for on-going projects will involve some or all of the following:

- reducing the project scope where appropriate while retaining the entire amount of Bank financing so that the Bank effectively would cover a larger share of costs;

- increasing disbursement percentages from Bank loans for projects (including time-slice projects) experiencing temporary financial difficulties and for which alternative sources of financing are expected to be available after 1984; and

- providing supplementary loans for completing high priority projects for which reduction in scope is not a viable alternative and availability of additional financing from other sources is uncertain.

10. Design of the assistance measures for the selected projects will generally involve:

(a) reviewing the appropriateness of project scope. In particular, possibilities should be examined for reducing the scope without serious adverse effects on remainder of the project. Project components experiencing chronic implementation problems and/or components whose economic viability has deteriorated since appraisal, would normally be good candidates for trimming. Projects which are essentially a line of credit, defined in financial terms without specific physical content (e.g., DFC loans) or where physical targets are only crudely defined and the exact scope is not essential to the project success (e.g., installation of 1,000 tubewells or rehabilitation of 500 irrigation tanks) would also be suitable for reduction in scope;

(b) updating of project implementation schedules and cost estimates taking into account *inter alia* implementation experience so far, any changes in scope deemed desirable and the implementation of action plans, where appropriate (para 8 (c));

(c) developing a new financing plan based on a realistic assessment of likely contributions by the non-Bank financiers. For the purposes of the Special Action Program, the Bank contribution for eligible project expenditures during 1983-84 could be higher than that currently approved for that country. The Bank contribution will be determined on country considerations in consultation with SVPOP. For IDA or blend (IDA/IBRD) countries existing guidelines which already provide for a high degree of cost-sharing could be applied flexibly within the approved IDA allocation for the country concerned. The financing of outstanding payments for goods and services which the borrower is unable to make could be considered for eligible expenditures incurred upto 12 months prior to Bank approval of special assistance for the project. In determining the share of costs to be financed by the Bank, it should be ensured that the procurement arrangements comply with the Bank guidelines;

(d) assessing the need, if any, for a supplementary Bank loan, now or at some future date, for assuring satisfactory project completion; and

(e) reallocating the Bank Loan(s) among various expenditure categories in line with the financing plan developed under (c).

11. Procedures. The responsibility for processing special assistance programs in the Bank will be as follows:

(a) Regions, in consultation with CPD, will decide on countries eligible for special assistance following the criteria outlined in paras 4 to 7;

(b) Regions, in consultation with the borrowers, will identify projects suitable for special assistance as per criteria indicated in para 8. They will also work out the details of the proposed assistance following the analysis outlined in para 10;

(c) Regions will prepare a brief memorandum as in the attachment justifying the proposed assistance measures, for clearance on a no objection basis by the Legal and Controller's Departments. Or, if it is clear from the outset that a supplemental loan would be the appropriate special action, the required draft President's memorandum (see (e) below) should be prepared in lieu of the brief memorandum referred to above;

(d) for projects involving reduction in scope and/or increase in disbursement percentages, the agreed memorandum together with the amendments proposed to the Loan documents as cleared by the Legal and Controller's Departments will be sent to RVP for approval with information copies to SVPOP, OPSVP, and the concerned Sector Department. Following the RVP approval, as per current procedures the amendments will be finalized by exchange of letters with the borrower by the Programs Department according to provisions of OMS 3.18 and the Administrative Manual Statement 2.00. The amendments made would be reported to the Board as part of the monthly report on Bank Operations; substantial changes in project scope will require prior Board approval on a "no objection" basis;

(e) for projects involving supplementary loans, the processing will be the same as per current procedures and will, thus, require Loan Committee clearance. The documentation required will consist of a memorandum from the President to the Board and the draft amending loan agreement. No SAR will be required. Where a set of Bank financed projects undertaken by a borrower in a sector/sub-sector are experiencing similar financial problems, a composite supplemental loan to that borrower with provisions for appropriate allocations to individual projects, could be considered. This technique could also be used to provide funds to a borrower undertaking projects in different sectors/sub-sectors. For any supplemental loans, their amortization will be incorporated in the schedule of the original loans.

(f) The Legal Department will prepare any amendments to the existing agreements or new agreements as necessary; and

(g) as the Program is implemented, President's Reports for loans to countries within the Program will summarize in part II the nature of the special actions being taken.

PAS/CPD
March 3, 1983

TO: RVP Concerned

FROM: Program Director Concerned

SUBJECT: Special Action Program - Country and Project

Attached please find a proposal under the Special Action Program for your approval.

cc: SVPOP
OPSVP
Sector Department Concerned

SPECIAL ACTION PROGRAM

1. Country/Project: ______________________________

2. Loan/Credit Amount ($ M) ______________ Date Signed (Mo/Yr) ________

3. Summary Project Description:[1]/

4. Date Last Supervision Mission (Mo/Yr) ____________________

5. Project Data

	Completion (Mo/Yr)	Full Dev. (Yr)	Cum. Disb.	Project Costs Total	Local	Foreign	ERR[2]/ (%)
			($ M)				
Appraisal	______	______	______	______	______	______	______
Last Supervision	______	______	______	______	______	______	______

6. Likely Net Impact ($ M/Annum) at Full Development on:[3]/

   (a) Government budget: ______________

   (b) Balance of Payments: ______________

7. Key Institutional and Policy Objectives Supported by the Project:

   (i)

   (ii)

   (iii)

   (iv)

   (v)

8. Summary of Implementation Status and Major Problems.[4]

9. Major Covenants not in Compliance:

10. Summary of Proposed Assistance Program[5],[6]

11. Implications of Proposed Changes

- Impact on Timetable for Project Completion
- Revised disbursement schedule indicating Increase in Bank Disbursements as a result of Special Action
- Impact on Overall Project Viability
- Any Risks[7]

Footnotes

1/ Normally same as in Form 590.

2/ If applicable.

3/ If no quantitative estimate are available, give qualitative judgements (e.g., "highly favorable", "insignificant").

4/ Normally, this would be the same as Section 6 in latest Form 590.

5/ Including action program to resolve outstanding major problems and non-compliance with covenants.

6/ If reduction in scope, attach updated itemized project cost estimates in an appendix.

7/ e.g., availability of future financing to complete the remainder of a time-slice program.

FOR IMMEDIATE RELEASE

M. Chernick
(from A Shakow)

World Bank

1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 477-1234

Bank News Release
Wednesday, February 23, 1983

Contact: Bill Brannigan
(202) 477-5497

WORLD BANK LAUNCHES SPECIAL ACTION PROGRAM

A Special Action Program designed to help developing countries maintain development momentum in the face of the current international economic crisis was announced today by The World Bank.

The Program involves financial measures and policy advice to help countries which are making serious efforts to restore and sustain growth despite adverse external circumstances and which are pursuing appropriate policies to do so. The Action Program, by itself, will not solve all the problems of countries in difficulty, the Bank noted in its announcement, but it is an important supplement to the assistance being provided by other agencies and governments.

Objective of the Program are to:

--emphasize high priority operations which support policy change;

--expand lending to help maintain crucial infrastructure and fuller utilization of existing capacity, particularly in export-oriented activities;

--expand Bank advisory services in the design and implementation of appropriate policies, including the reordering of investment priorities;

--maintain project momentum by increasing the share of Bank financing in the project;

--accelerate disbursements out of existing loans and credits, where feasible;

--urge other lenders to make similar efforts.

The Program is being established for two years in the expectation that the world economy will have begun to recover during this period. If recovery takes longer, the Program may be extended.

The estimated increase in IBRD disbursements as a result of the Action Program is US$2 billion over the FY83-85 period, an eight percent increase in total projected disbursements for those years. Net transfers (disbursements less interest and amortization) are expected to increase by nearly 25 percent in this period as a result of the Program.

It is expected that Bank borrowings will have to increase by about US$1.6 billion to accomodate the needs of the Action Program -- a slight increase over the US$30.2 billion previously anticipated.

The Special Action Program relates primarily to IBRD loans and cannot easily be applied to IDA credits because the Bank, together with other donors, already finances a very high share of IDA project costs. Moreover, even the relatively modest volume of accelerated disbursements implied by the Action Program will be difficult for IDA to finance. IDA disbursements are financed through calls on donors who already face severe problems meeting existing calls due to current budget constraints.

The Action Program involves temporary shifts in the composition of Bank lending but Bank standards with respect to creditworthiness, project-related conditions, sectoral policy and macro-economic criteria remain unchanged.

Major elements of the Program include:

--expansion of structural adjustment lending beyond the 30 percent limit hitherto applied to an individual country's lending program;

--expansion of sectoral lending for export development, rehabilitation and modernization of existing facilities and financing key imports for critical productive activities;

--financing a greater share of projects costs. Some measures in this area involve providing supplementary loans for ongoing projects and restructuring existing loans.

The Bank's extensive experience in country economic and sector work will contribute susbtantially to the implementation of this special Program. While the Bank's mission does not include the financing of balance of payments deficits of its members, it does have a responsibility to assist member countries maintain the maximum level possible of development while minimizing the erosion of long-term growth prospects.

NOTE: The "World Bank" means both the International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA). The IBRD has a second affiliate, the International Finance Corporation (IFC).

SPECIAL ACTION PROGRAM
Background Paper

The Economic Environment

In recent months, commercial bank lending to developing nations has stagnated. In the last quarter of 1982, there was a decline in the net outstanding loans to developing countries. Trade has stagnated. Commodity prices have plunged. As a result, many countries have had to cut investment plans and funding of existing projects due to shortages of domestic and external finances. These financial contraints have also adversely affected operation and maintainence of existing facilities.

The current slump in the world economy has led not only to lower growth of exports from the oil-importing developing countries but also to a simultaneous worsening in the terms of trade. The Bank's overall index of 33 commodity prices shows a 25 percent drop in nominal terms between 1980 and 1982. The low-income countries have been particularly hard hit; their terms of trade deteriorated by about 25 percent between 1979 and 1982.

Major Elements of the Special Action Program

1. Expanded Structural Adjustment Lending. Current circumstances may require policy changes on a larger scale and implemented with greater speed than undertaken in the past. Thus, the Bank is prepared to temporarily set aside the previous policy of restricting structural adjustment lending at 30 percent of a country's total lending program. Should it appear that total structural adjustment lending together with other non-project loans may exceed 10 percent of the Bank's overall lending program -- the level currently agreed as a ceiling -- the matter will be brought to the Board of Executive Directors for consideration.

2. Sector Adjustment Support. There are situations in which policy changes focussed on specific sectors are more appropriate than country-wide structural adjustment programs. Such loans may involve export development, rehabilitation and modernization of existing facilities and provision of agricultural inputs as part of a program to modify the incentive structure.

3. Financing an Increased Share of Project Costs. The Bank generally finances the foreign exchange costs of projects. In the middle and higher income countries, exceptions to this rule may be made when the foreign exchange component is very small; in these cases, the Bank may finance 35 percent of total costs. In the lower income countries, the Bank frequently finances a portion of the local costs. In the poorest countries, the Bank finances up to 90 percent of project costs.

To help ensure completion of high priority projects and programs as expeditiously as possible, the Bank will modify its cost-sharing criteria on a country-specific and project-specific basis, on existing projects, by:

a) reducing the scope of projects while retaining the entire amount of Bank financing;
b) extending supplementary loans, including retroactive financing;
c) restructuring loans to reduce the time period covered by projects.

Regarding new commitments, the Bank will consider financing a larger share of recurrent costs early in the life of a project and financing working capital requirements of development finance companies or other intermediaries. The Bank also plans to make increasing use of revolving funds.

4. Enhanced Policy Dialogue. On request, the Bank will help governments review investment programs, macro-economic policies, trade and pricing policies, expand its assistance for debt management and assist in evaluating changes in development priorities. The Bank will emphasize maintainence and rehabilitation projects in view of their importance to utilizing existing investments.

5. Coordination with Other Donors. The Bank will intensify its use of various consultative mechanisms to urge other international lending institutions and bilateral aid donors to consider similar measures.

Information and Public Affairs
The World Bank
February 1983.

SPECIAL ACTION PROGRAM

Background Paper: Appendix I

Sectoral Adjustment Support -- Some examples:

1. Export Development. The World Bank has approved two loans to Jamaica to help establish and expand a revolving Export Development Fund (EDF), for short-term and medium-term financing of foreign exchange for imports required by exporters.

The first loan was made in May 1979. Thirty million of the $31.5 million was used to establish the Fund, as a subsidiary of the Bank of Jamaica. The $30 million component for the Fund was fully disbursed by mid-1981.

The second loan, of $37 million, was approved in April 1981. Up to $26 million will be used to increase the resources of the Fund for its current short-term operations in support of imports required by exporters; of which $22 million will be for the importation of raw materials, intermediate goods, packaging materials, and spare parts by producers of manufactured goods for exports, and $4 million for imports of recurrent inputs for the cultivation, harvesting, handling,and packaging of bananas for export. Ten million is going to be used to open a new EF window for medium-term financing of permanent working capital and equipment. The remaining $1 million will be for technical assistance.

As of December 31, 1982, about $26 million of the $37 million loan had been disbursed.

The EDF has been operating quite effectively but at a somewhat lower level than expected. Demand for EDF resources has recently increased sharply in response to new export incentives introduced by the Government earlier this year. As a result the Bank is considering a third loan for the EDF.

2. Rehabilitation/Modernization. In April 1980, a $65 million IDA credit to Sudan for an Agricultural Rehabilitation Program (ARP) was approved. The program is the first of its kind ever undertaken by IDA or the World Bank in Sudan. It is an integral part of the government's Export Action Program, designed to help increase the country's main exports -- cotton and groundnuts -- and thus contribute to Sudan's economic stabilization efforts. The credit funds are almost completely disbursed.

About $64 million in foreign exchange was provided to finance high-priority imports, such as spare parts, equipment, and fertilizers, to activate substantial sunk capital and thus increase the productive capacity of Sudan's main irrigation schemes -- Gezira, Blue and White Nile pump schemes, and Rahad. The investments financed under the ARP have an estimated economic rate of return of over 100%.

Sudan's 1982 cotton crop increased by about 35% over the previous year and the latest crop is estimated to be 10% - 20% higher still. The policy and structural reforms which the Government of Sudan has implemented, e.g., pricing and incentive policies, have increased growers' returns from cotton and acted as powerful incentives to produce more. They have also rationalized the administrative/institutional/policy framework affecting agriculture; in particular the performance of public agencies and parastatal corporations and their accounting systems were examined and improvements put in place. The IDA credit also included funds for studies and technical assistance to implement the Agricultural Rehabilitation Program.

3. Agricultural Inputs. In November 1980, a $50 million IDA credit to Pakistan for fertilizer imports was approved. The credit was designed to assist the Government of Pakistan to meet the demand for fertilizer and thereby to increase agricultural output.

Major policy reforms envisaged in the credit have been implemented, notably a reduction in the fertilizer subsidy; the establishment of an Agricultural Prices Commission, to monitor the prices of agricultural products; and the establishment of a Transportation Task Force, charged with rationalizing the transportation of fertilizer and agricultural products.

The savings realized from the reduction of the subsidy have been retained in the Agricultural Development Budget and allocated to productive agricultural investments, mainly in irrigation.

The fertilizer import credit preceded the approval, in June 1982, of a structural adjustment loan ($60 million) and credit ($80 million) by the World Bank and IDA. The discussions on policy reform under the fertilizer credit were linked to the program of structural adjustment which was being considered at that time. Several of these policy reforms were included in the overall structural adjustment program which is now being successfully implemented.

The fertilizer import credit was fully disbursed in August 1982.

Information and Public Affairs
The World Bank
February 1983

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

January 21, 1983

Mr. Shahid Husain

I attach for information Ernie's note of today attached to his revised version of the Special Action Paper. He revised Parts 1 & 2 extensively. Sometimes one cannot win!

Bevan

E. Bevan Waide

Attachment

cc: SC

PS. The table is not included, on purpose.

Bevan

Please incorporate changes and deliver 15 copies to Humphrey no later than noon. He has the covering memo.

I confess I am puzzled how staff is deployed. I should have thought that while someone was dealing with Part III someone else might have looked at Part II. But apparently that was not thought necessary. (The OPSC is not an editorial forum - and because no one said anything doesn't mean its OK.) Please put someone to work, after this draft is out, on Part II. It needs tightening, coherence and reference to the adjustment effort - as I've said before.

E.S.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

SC

OFFICE MEMORANDUM

TO: Mr. Ernest Stern
THROUGH: Mr. Shahid Husain
FROM: E. Bevan Waide, Director, CPD BW

DATE: January 27, 1983

SUBJECT: Special Assistance Paper

1. I attach the Board version of the paper for your review. It incorporates all your suggestions, changes arising from the Managing Committee meeting and new material from the Finance complex. The presentation of arguments has been streamlined and corrected throughout. Major changes are indicated by a red line in the margins.

2. You will note that the estimate of additional disbursements has now been reduced again to about $2 billion from the previous $2.3 billion, and also that Finance is now recommending an increase to $3 billion in the short-term borrowing ceiling. This, and the introduction of cautionary remarks in the Finance section, slightly changes the tone of the last part of the paper. The Financial Implication Section has been cleared by Mr. Qureshi.

3. Sid Chernick is available in my absence to make any final changes, if required. I would suggest that, if any major issues remain, he might have to forego participation in the IDA replenishment meeting in Paris on February 1 and 2.

Attachment

p. 25.

January 27, 1983

MEMORANDUM TO THE EXECUTIVE DIRECTORS

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence of an early recovery. Reflecting the growing interdependence of the world economy, industrialized and developing nations have, with few exceptions, been hard hit by the recession. Almost all the World Bank's borrowers are experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and increasingly onerous debt burdens. The adjustment process of the early 1970s was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, a boom in commodity prices, and low real interest rates. But since 1980 there has been little growth in net aid, commercial capital has carried record high real interest costs, trade growth has ceased and commodity prices have collapsed. More recently, commercial bank lending has stagnated and in the third quarter of 1982 there was a decline in the net outstanding loans to developing countries. Many member countries have had to reduce and reorient investment programs, to curtail recurrent expenditures, and to delay the completion of high priority development projects. Programs in health, education and other social sectors have been particularly vulnerable.

2. While there is an urgent need for balance of payments support, which the IMF is providing with assistance from the commercial banks, there is an equally urgent need to deal with the development aspects of the current crisis. High priority projects already under implementation must be completed; effective utilization of existing capacity is essential to income growth in constrained circumstances; an appropriate level of investment in human capital must be safeguarded if future development prospects are not to be impaired; existing capital stock must be maintained if replacement costs are not to be excessive; and quick yielding and export-oriented projects must be supported to generate domestic and external resources for future growth. It is in these areas that a special effort by the World Bank is necessary to supplement short-term balance of payments and stabilization measures.

3. A World Bank Action Program is thus proposed for the next 24 months: even if there is a resumption of growth in the industrialized countries in 1983, and even if this growth is more vigorous than is now anticipated, it will take time to have a significant effect on the economic situation in our borrowers. The Action Program will assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development despite adverse external circumstances. Without reducing our concern for appropriate macro-economic or sectoral policies, without lowering our standards of project analysis and without weakening our portfolio quality, we propose:

(a) to help maintain project momentum by accelerating disbursements under existing and proposed loan commitments;

(b) to substitute high priority operations that support structural adjustment, policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations;

(c) to expand advisory services in the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other lenders make similar efforts.

These actions in combination are expected to increase disbursements significantly in FY1984 and FY1985, and to have an even more substantial impact on net resource transfers.

4. This paper presents a diagnosis of the current world economic situation and its impact, outlines the content of the Action Program we propose to undertake and describes the financial implications of the Program.

II. The Impact of the Current World Economic Situation

The World Economic Situation

5. The world economic recession is exceptional in its severity and duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth in the OECD countries and sustained high interest rates have contributed to much reduced growth in the developing countries.

6. After the events of the early 1970s, the commercial banks channelled a large amount of capital to the oil importing developing countries, official capital flows increased, and there was a boom in commodity prices. Together these helped offset the impact of higher energy prices and the rapid increases in prices of many manufactured goods. Rapid inflation reduced the real burden of carrying fixed interest debt, and world trade expanded rapidly,

particularly as OECD growth recovered in 1976. Rapid growth in the oil exporting countries helped maintain the demand for exports from other developing countries, and increased their earnings from workers remittances. These favorable factors helped most of the oil importing countries to adjust and reduce the size of their current account deficits which declined from a peak of about 5% of aggregate GNP in 1975 to about 2% in 1978, which is roughly equal to average pre-1973 levels.

7. With the further increase in energy prices in 1979, the recession in OECD countries and the emergence of high real interest rates, the current account deficits of the oil importing developing countries again rose to about 5% of GNP. These deficits, which declined only slightly in 1982, are likely to be significantly smaller in 1983. This reflects not a successful adjustment process, but reduced external financing and a consequent slowing down of growth. The accumulation of large debts and a stagnant world economy have combined to reduce the creditworthiness of many developing countries. Debt servicing difficulties in several major borrowers have led to severely restricted access to commercial capital for almost all developing countries. Unlike the post 1974-75 recovery period, official assistance has not grown since 1980.

8. The task of restoring growth in the OECD countries now appears to be more difficult than initially anticipated. Although OECD growth rates fell from 3.2% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. This, however, did not materialize, and overall the OECD countries did not grow at all in 1982. A modest recovery of 1.5% is now forecast for 1983 compared with 3.0% expected a year ago. Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1960-82

(percent)

	Industrial Countries	Developing Countries: Oil Exporters	Developing Countries: Net Oil Importers
1960-72 (annual average)	4.9	6.7	5.7
1973	6.2	8.6	7.1
1974	0.6	7.0	5.6
1975	-0.6	4.0	3.6
1976	5.2	7.6	5.3
1977	3.7	5.2	5.3
1978	3.9	5.6	5.3
1979	3.2	8.5	3.2
1980	1.3	4.9	4.2
1981	1.2	-2.0	1.9
1982(preliminary estimates)	-0.2	1.0	1.5

Source: World Bank data for 1960-81; OECD estimates for 1982.

9. The decline in demand in the industrial countries has caused the volume of world trade to stagnate in 1981 and decline slightly in 1982. The OPEC countries' export volumes declined by an average of about 15% per year from 1980 to 1982, reflecting reduced demand for oil in industrial countries as a result of the recession, higher prices and conservation measures. As unemployment has risen in industrialized countries, there have been growing protectionist pressures often aimed at imports from developing countries. As a result of these factors, the volume of exports from the oil-importing developing countries is estimated to have grown by only about 3.5% in 1982, compared with an annual average of over 8% during 1978-80.

10. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured imports, and lower interest rates, these beneficial effects have been more

than offset by steep declines in primary commodity prices. The World Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 6% in 1980, and almost 4% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. Their terms of trade deteriorated by about 25% between 1979 and 1982.

11. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with an average of over 6% during the 1970s, non-oil developing countries' import volumes have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three consecutive years.

Table 2: Changes in Terms of Trade

	1979	1980	1981	1982	Estimated 1983
Industrial Countries	-2.4	-7.8	-1.1	1.5	0.5
Developing Countries					
Oil Exporting	29.1	41.5	10.8	-1.0	-2.0
All Non-Oil	-0.3	-6.2	-3.9	-3.5	-1.0
Non-oil Low-Income	-1.8	-13.0	-10.8	-3.5	-1.0

Source: For 1979-82, IMF World Economic Outlook - General Survey (ID/83/1), January 17, 1983; for 1983, estimates based on OECD data.

12. During the initial years of the current recession the developing countries, particularly the oil exporters and major exporters of manufactures, were able to offset adverse external events in part by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from

about $350 billion in 1979 to about $530 billion in 1982.1/ Only one-third ($60 billion) of the increase came from official sources, the rest from private sources, chiefly commercial banks. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens, especially those that had borrowed on shorter maturities. This was particularly true of countries, such as the oil exporters, whose creditworthiness had been based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico). This has made the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment.

13. Policy reforms and bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. As a result, developing countries are being forced to reduce imports, investment, and their growth objectives.2/

1/ World Bank data. OECD estimates a total of $626 billion, but covers countries not included in the World Bank data base (e.g., Spain, Saudi Arabia, Iran, Iraq).

2/ A more detailed analysis of the causes of the present crisis was presented in the World Development Report, 1982. Updated views on the current world economic situation will be presented in the WDR 1983.

Country Experience: Macroeconomic Impact

14. There is considerable variation in the impact of the international recession on individual countries, but there are also broad similarities. Most countries have experienced, in varying degrees:

- import reductions because of stagnant or declining foreign exchange earnings, reduced inflows of external capital, and rising debt service requirements;
- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;
- cutbacks in investment plans and the slowdown of on-going projects because of shortages of domestic and external funds; and
- shortages of funds to finance the operation and maintenance of existing facilities.

15. The severity of such problems depends not only on economic structure, but also on the choices countries make between the various ways of adjusting to external shocks: some adjustment paths are efficient and others less so. Current account deficits can be reduced by slower growth, which cuts the demand for imports, or by switching production toward additional exports and efficient import substitutes. Countries which still have access to external capital can use this capital to help make these structural adjustments or to help postpone making adjustments. Countries which choose to maintain present consumption levels by reducing investment will eventually pay the price of a more difficult adjustment in later years, or must be willing to accept a longer period of slower growth. Countries which, on the other hand, restructure investment programs, increase domestic saving, and give incentives

to exports may have to accept lower growth and consumption during the transition period, but are likely to emerge as stronger economies in the longer run. For the low income or least developed countries, however, the choices are more difficult, since present consumption levels are already very low, and further cuts to maintain investment imply real social and human costs.

16. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditure has been reduced by 40% in real terms over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from receiving concessional assistance. Borrowings from the IMF already total 380% of quota.

17. Some countries, of course, were facing severe problems even before the current recession (e.g. Argentina, Bolivia, Sudan, Zaire), largely because of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

18. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the government's budgetary deficit, from an expected 2.4%, to 5.3% of GDP

for 1981-82. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23% higher than budgeted. As a result, there was a 12% reduction in development expenditures.

19. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, has worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

20. Many countries are taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external borrowings. Bangladesh, faced with declining export prices, poor weather and stagnating aid levels in 1982, introduced a series of new tax measures, reduced fertilizer and food grain subsidies, and raised the prices of petroleum products, electricity tariffs and natural gas.

21. Latin American countries have been particulary affected by the reduced access to new commercial credits. A number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF

assistance. While these programs vary among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to be slower growth, or even no growth at all, in these countries in 1983.

22. In Mexico, for instance, the Government has agreed to reduce its budgetary deficit from 16.5% of GDP in 1982 to 8.5% in 1983, to limit the growth of new foreign borrowing, and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure about $19 billion of existing debt and it is estimated that net new financing of $7 billion will be required in 1983. While these measures will help, Mexico still has major structural problems to confront.

23. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. Pakistan, for instance, has taken steps since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irrigation system, while the investment program in irrigation has been reoriented toward projects having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into

the manufacturing and energy sectors, and energy prices have been made more realistic.

24. While these reforms have been supported by the Bank (a SAL) and the Fund (an EFF), much more needs to be done. In the past year, although the value of Pakistan's imports increased by 2%, the current account deficit increased by 54%, principally due to a sharp decline in agricultural export prices and slower growth in migrant remittances. In addition, net disbursements of official bilateral assistance have continued to decline from the peak reached in the mid-70s. Without an improvement in export prices and increased external support, it will be difficult for the Government to carry out its structural adjustment program.

25. Almost all countries now face difficult decisions as they attempt to balance reductions in investment programs with the introduction of new fiscal measures or greater external borrowing. There is always the danger that in choosing among these alternatives, countries will tend to curtail government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a very adverse impact on long-term growth and social stability. There is also the danger that the severity of the immediate crisis will lead to reductions in demand, including cuts in investment, which will reduce the medium term prospects for growth unduly.

Country Experience: The Impact on Bank-Financed Projects

26. Bank assisted projects have not been immune from the pressures on investment programs. A recent review of the Bank's project portfolio shows that the impact of the worldwide recession on developing countries is reflected in increasing delays in the implementation of projects; borrowers' economic problems adversely affect the entire process of making policy

decisions, as well as the ability of the governments to provide adequate managerial and financial resources.

27. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, some Bank-financed national industrial development banks have experienced reduced profitability and/or increasing loan arrears, as in projects in Korea, the Philippines, Colombia, Morocco and Kenya. Agricultural projects expected to produce goods for exports have been affected by declining commodity prices, e.g., projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been impeded by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds.

III. Bank Response: An Action Program

Scope and Objectives

28. While the World Bank cannot, and should not, attempt to finance the balance of payments deficits of its members, it has a responsibility to assist member countries with policy advice and special financial assistance so as to maintain the maximum possible level of development activities and minimize the erosion of future growth prospects.

29. Because there is a reasonable expectation that the world economy should begin to recover within the next 12-24 months, and consequently the severity of the pressures on the developing countries may be attenuated, the proposed Action Program concentrates on achieving results over the next two years. If recovery takes longer than anticipated the Program can be extended. The Program aims at enhancing the effectiveness of resource use in countries that are making a determined effort to implement appropriate

adjustment policies. It entails an increase in policy advice to help countries strengthen their development programs, measures to accelerate disbursements on existing loans, and shifts in the pattern of new commitments in favor of quick-yielding investments, which generally also involve fast-disbursing operations. The special assistance will be available to countries which have an appropriate policy framework in place, where investment programs have been or are being adjusted to resource availabilities, where adequate efforts are being made at resource mobilization, or where the assistance can support appropriate policy changes and adjustment measures. This will require continued close collaboration with the IMF to ensure that reductions in demand take appropriate account of longer term development objectives and to ensure that the Bank's support in sectoral policies and project activities complements the general fiscal and monetary measures.

30. Our present assessment is that such changes can be accommodated in the Bank's planned commitment levels for FY1983 and probably also in FY1984, since many countries are reducing their investment programs, and the number of new investment starts will be substantially reduced. However, should further examination of individual country investment programs indicate a need for an upward revision of the planned FY1984 commitment level, we will make the appropriate recommendations in the context of the FY1984 Budget and Operating Program.

31. The Bank's ongoing country economic and sector work puts the Bank in an excellent position to determine how it can best support governmental actions and to evaluate which borrowers should benefit from the various measures proposed. The many factors that are relevant to such evaluations include the appropriateness of the pricing framework to stimulate production and exports, the composition and scale of the investment program, the

government's efforts to contain budgetary and current account deficits, and the impact of budgetary changes on expenditures on human capital development and vulnerable income groups. An enhanced program of economic and sector work, as well as additional technical assistance, will be an essential ingredient. The Bank will consult bilateral and other multilateral lenders and urge them to support these initiatives through parallel actions of their own.

32. The Bank's Action Program involves temporary changes in certain Bank practices and procedures, as described below, and a shift in the type of project to meet the current economic situation in many of our borrowers. No aspect of the Action Program involves a lowering of Bank standards of macro-economic and sectoral policy conditionality, creditworthiness or project related conditions. Rather, it is designed to help borrowers take appropriate actions to offset the adverse effect on development of the severe short-term liquidity problems caused by the current global economic environment.

Major Elements of the Program

33. Expanded Structural Adjustment Lending. Structural adjustment lending has been a valuable tool for helping borrowers design and implement major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick disbursing assistance. SALs have provided an excellent opportunity for enhanced policy dialogue on broad economic and sectoral policies. As economic conditions worsen, a number of additional countries are planning to make broad policy changes and have explored the possibility of Bank support. Several additional countries are likely in the near future to adopt policy reforms that will satisfy established SAL performance criteria.

34. Until now Management has restricted the size of SALs to about 30% of a country's lending program, consistent with the Bank's primary emphasis on project lending. Under current circumstances, however, massive reductions in investment programs may, justifiably, leave little scope for new starts, while the scale of policy changes called for is larger than heretofore, and the need for speed in implementation is greater. It is necessary therefore to alter this yardstick. We propose that the size of SALs be proportionate to the scope and complexity of the adjustment program being undertaken, even if this means that temporarily the SAL component will be a larger share of the country's lending program. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. Should it appear that an increased number of structural adjustment programs warrant support so that total SAL and program loan commitments would exceed 10% of the Bank's lending program, Management will, as previously indicated, bring the issue to the Board for consideration.

35. Sector Adjustment Support. There are many countries in which policy reforms focussed on specific sectors are more appropriate than comprehensive SAL programs. The objective of such operations are two-fold: to support necessary policy changes and administrative improvements, and to provide the resources necessary to utilize existing productive capacity more efficiently. Three general categories of such loans, utilized in the past, involve export development, rehabilitation and modernization of existing plants, and provision of current agricultural inputs as part of a broad program to modify the incentive structure.

36. An example of export development lending is the Export Development Fund loan approved for Jamaica. The loan finances a revolving fund which enables exporters to obtain raw materials, spare parts and minor equipment necessary for current production. The foreign exchange is repaid by the

exporters in 6-12 months out of their export earnings. The objective of such loans is to ensure that shortage of foreign exchange does not lead to underutilization of export capacity which would reduce foreign exchange earnings further. Such loans can be effective, of course, only if export competitiveness is maintained and if other incentives for export production are appropriate.

37. Lending for rehabilitation and modernization has been done in a number of countries. For instance, the Agricultural Rehabilitation Credit in the Sudan served to restore the production of cotton, Sudan's principal export. The credit provided key inputs for production and stressed physical rehabilitation and agreement to improve the incentive structure, marketing and input distribution systems. Such operations need not, of course, be limited to agriculture: there is scope for such operations in industry, power, roads and transport where budgetary pressures have reduced maintenance below levels needed by the equipment, thus forcing use at below full capacity.

38. An example of lending for agricultural inputs, as part of a reform of sector policies, is the fertilizer import loan to Pakistan. In general, subsidies for agricultural inputs are a major drain on government budgets, displacing higher priority development investments. This is happening now in Nigeria, where many agricultural projects have come to a halt because the States can not finance their share -- the bulk of State expenditures on agriculture being earmarked for the fertilizer subsidy. Action to reduce these subsidies, and phase them out gradually, will be facilitated if adequate supplies of fertilizer to the farmer can be assured through increasing imports domestic or production, and by improving marketing and distribution systems.

39. Financing an Increased Share of Project Costs. The Bank generally finances the foreign exchange costs of projects. In the middle and higher income countries, exceptions to this rule are made only for projects in which the foreign exchange component is very small. This is often the case in projects in agriculture or the social sectors. In those cases the Bank generally finances 35% of project costs -- a percentage thought necessary to ensure adequate Bank involvement in project design and implementation. In the lower income countries, the Bank also finances a portion of the local costs, taking account of the limited capacity in these countries to mobilize public resources. In the poorest countries, the Bank finances up to 95% of project costs. In all countries, the share of project costs financed by the Bank is affected by the availability of cofinancing. Consequently, the Bank may finance less than the full foreign exchange costs or may agree to total external financing covering up to 95% of project costs.

40. We propose to modify these criteria for cost sharing for the balance of FY1983 and FY1984 on a country- and project-specific basis, to help ensure the completion of high priority projects and programs as expeditiously as possible. Financing a larger share of project costs may involve fewer projects, which may be precisely what is appropriate under present circumstances. In the present circumstances, borrowers are responding appropriately and with the full encouragement of the Bank, by reducing their investment programs, including, wherever appropriate, cancellation of Bank-financed projects. To obtain the benefits of the additional output as soon as possible, priority must be given to completing high priority ongoing projects which have been delayed by the shortage of foreign exchange or budgetary resources. Since disbursements under new projects approved in FY1983 and

FY1984 will be small, it is proposed to increase the Bank's share of project financing on existing as well as new projects. We would therefore plan:

- to reduce the scope of ongoing projects where appropriate while retaining the entire amount of Bank financing so that the Bank effectively would cover a higher percentage share of costs;
- to consider supplementary loans for ongoing projects to increase the Bank's share of financing, including interest during construction where appropriate. The amortization for such loans would be incorporated in the schedule of the original loan. Retroactive financing would be limited to eligible expenditures incurred in the last 12 months. Such supplementary loans would include an agreed implementation plan to accelerate project completion;
- in exceptional cases, where a set of similar Bank-financed projects is affected by budgetary constraints, the problem would be addressed through a composite supplementary loan usually in a single sector, with provisions to ensure the appropriate allocation to individual projects;
- to restructure loans which finance broad programs in such areas as irrigation, water supply and feeder roads. By reducing the time period covered by the project the Bank would increase the share of costs it would finance. This will require government

commitment to complete the balance of the program -- already a standard feature of such loans; and

- to make increasing use of revolving funds. These funds, into which the Bank deposits in advance funds required for expenditure in 60 days, were not as commonly used in the past as today. They avoid tying up scarce foreign exchange resources for eligible expenditures while awaiting Bank reimbursement. They are replenished as disbursement requests are processed in the usual way.

41. These, and similar measures, will provide additional resources quickly to countries and implementing agencies to help alleviate budgetary and foreign exchange bottlenecks. In addition, for new commitments in FY1983 and FY1984 we would:

- consider financing a larger share of recurrent costs for the next two to three years, offset by a sharper reduction in the later years;
- emphasize maintenance and rehabilitation projects in view of their importance in helping to utilize existing investments;
- consider financing working capital requirements in loans to DFCs, or other financial intermediaries.

42. Enhanced Policy Dialogue. Increasing the pace of resource transfers will be supplemented by a further expansion of analytical support. The Bank will help governments, on request, review investment programs, macro-economic policies and trade and pricing policies, expand its assistance for debt management either through technical assistance credits or staff support, and

assist in assessing changes in development priorities. Country economic and sector work has expanded in FY1982 and again in FY1983. We expect further growth will be required in FY1984 too.

43. Coordination with Other Lenders. The Bank's Action Program will be of importance in individual countries but to achieve maximum impact it will require the active participation of other donors. The Bank will intensify its use of various consultation mechanisms with other international lending institutions, bilateral aid donors and sources of private capital to urge consideration of similar measures especially as there is some evidence that disbursements by bilateral donors have been curtailed to meet their own budgetary problems. Meetings of aid consultative groups, and the consultation meetings with bilateral and regional organizations provide appropriate fora for discussions both on actions for individual countries and temporary changes in general lending practices.

Financial Implications of the Action Program

44. The basic objective of the Action Program is to assist those countries seeking to deal effectively with the current adverse economic conditions and, to the extent possible, maintain their development momentum. This will be assisted by accelerating the transfer of resources out of existing and new commitments in support of effective programs of policy change and adjustment. The initial assessment suggests that in FY1983 any commitments for supplementary loans or expanded sectoral support activities can be accommodated within the approved Bank lending program because of the decline in new investment in numerous borrowing countries. For FY1984 we will review lending requirements in the next few months and should any revision in the presently planned Bank commitment level of $11.9 billion be considered necessary we will make the appropriate recommendations in the FY1984 Budget and Operating Program.

45. Regrettably, IDA resources remain severely constrained, and there is little scope for increasing commitments above presently planned levels. ~~Even though IDA countries are not generally affected by absorptive capacity constraints at the present time, IDA will again not have adequate capacity to support investment programs in low income countries nor to provide special financial support for programs of policy change.~~ Moreover, the steps designed to increase cost sharing will be less significant in IDA countries since IDA already finances a very high share of total costs. IDA countries can nevertheless benefit from the proposed program. With limited access to other resources, the shifts in the composition of IDA lending and more rapid disbursement should help ease the difficulties these countries face in dealing with the present problems.

46. Disbursements and Net Transfers. The Action Program will have a modest impact on disbursements in FY1983, since only five months remain, but it will have a more significant effect in FY1984 and FY1985. It is not possible to be precise about the disbursement impact of the Action Program in advance of consultations with governments so the estimates below should be considered only broadly indicative.

Projected IBRD/IDA Disbursements and Net Transfers
($ million; percentage)

	FY83	FY84	FY85	Total
IBRD				
Disbursements without Action Program	7300	1000 8300	9400	25000
Net Resource Transfers	2600	2550	2220	7350
Additional Disbursements from Action Program	~~200~~ 150	1150 1000	~~700~~ 850	~~2050~~ 2000
Additional Net Transfers from Action Program	~~195~~ 145	~~1075~~ 925	~~530~~ 680	~~1800~~ 1750
Increase in Disbursements (%)	~~3~~ 2	~~14~~ 12	~~7~~ 9	8 8
Increase of Net Transfers (%)	~~8~~ 6	~~42~~ 36	~~24~~ 31	24 24
IDA				
Disbursements	2500	3000	3500	9000
Additional Disbursements from Action Program	-	150	100	250
Increase in Disbursements (%) a/	0	5	3	3

a/ IDA's disbursements are only slightly higher than its net transfers because of the ten-year grace period on credits and the low service charge.

Source: ~~Financial Staff~~ Data /

The estimated increase in IBRD disbursements attributable to the Action Program totals ~~just over~~ $2 billion over the FY83-85 period, an 8% increase in total projected disbursements for those years. Together with the increase in disbursements in traditional operations Bank disbursements to developing countries will increase 25% in FY84 alone. More importantly, relative to estimated net transfers of $7.4 billion over the three year period, the increase is ~~about 24%.~~ almost 25 over the three period and over 35% in FY84. Since not all countries will be affected by the Action Program, the percentage increase for the countries that do benefit will of course be larger.

47. IBRD Borrowings. The major impact of the Action Program on the Bank's financial position would be on the borrowing program. Borrowings would have to be increased in order to finance the additional disbursements. However, to the extent that at least part of the additional disbursements in

FY83-FY85 are accelerations of current plans, these increases would be offset by lower borrowings in later years. Adding the Action Program to the most recent projections of Bank cash needs over the next three years, we now estimate that borrowings in the the FY83-85 period will need to be increased by about $1.6 billion above the $30.2 billion level indicated in the FY83 Financial and Operating Program Memorandum.

IBRD Gross Borrowings
($ million)

	FY83	FY84	FY85	Total
Borrowing Program in FY83 Budget	9000 a/	9800	11400	30200
Proposed IBRD Borrowing	9800	10500	11500	31800
Increase	800	700	100	1600

a/ To compensate for a shortfall on the FY82 program, this amount was subsequently raised to $9350 million.

Source: ~~Borrowing program in FY83 Budget from R82-167, May 20, 1982.~~

48. The proposed phasing of this additional borrowing takes account of the fact that our borrowing program for FY83 is already well advanced. Moreover, since we anticipate some firming of US dollar interest rates in FY84 and since estimates for disbursements under the Action Program are at best uncertain and could be higher than presently anticipated, there is a case for concentrating the additional borrowings in the early part of the FY83-85 period. While the start-up of the Action Program makes estimates of the Bank's future cash needs more uncertain than usual, the phasing is also expected to be consistent with maintaining the Bank's liquid holdings at or about 40% of the following three year's net cash requirements, as provided under our current liquidity policy.

49. To complete the increased borrowings in FY83 and FY84 at minimal cost, it is desirable to raise the present $1.5 billion ceiling on short-term borrowing. Our current best estimate is that it may be desirable later in June to consider raising the ceiling to $3 billion in connection with the enlarged FY84 borrowing program. In the meantime, it is proposed that the ceiling be raised to $2 billion for FY83. In FY84 the composition of an enlarged borrowing program - and its average cost - would depend on the decisions of the authorities in various capital markets regarding the degree of Bank access to their markets for new issues as well as for swap transactions.

~~50. The average cost of the borrowing may go up slightly since much of the incremental borrowing would be done in medium and long-term US dollars or in other currencies with a nominal cost higher than the average cost of the current program. Whether, and to what extent, this happens will also be affected by the maturities of the borrowings, as short-term borrowings presently have significantly lower interest rates than long-term borrowings.~~

50. ~~51.~~ IBRD Capital. The implications of the Action Program for IBRD capital requirements need to be considered in the light of both the requirements of the Bank's Articles and the the Bank's existing policy on the timing of capital replenishment. 1/ Under the Articles of Agreement 2/the

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1/ During negotiations for a selective Capital Increase in 1976, the Executive Directors approved a management recommendation that the levels of Bank operations be planned in a way that in the "absence of...a further [capital] increase, future adjustments of plans [should not be] so large as to substantially distort or disrupt operations." The intention behind the policy is to avoid a situation in which member governments would either have to approve an increase in IBRD capital or accept a disruptive adjustment in IBRD operations. The level of lending arising from this policy is called the sustainable level of lendings.

2/ Article III, Section 3 of the Bank's Articles requires that loans (and guarantees) not be increased beyond the total of subscribed capital and reserves.

Bank must not increase its loans (on a disbursed basis) beyond the level of its total subscribed capital and reserves. Given presently planned IBRD commitment levels for FY83 and future years, this limit would be reached in the early 1990's - probably in FY91 or FY92. Since loans that have already been committed would be virtually fully disbursed by that time under normal disbursement patterns, the part of the Action Program which results in accelerated disbursements under past commitments should have a negligible impact on the total volume of IBRD loans then outstanding. Hence, this part of the Program would not alter the date when additional capital is required under the Articles. The restructuring of the commitment program - both the shifts toward faster disbursing loans and the possible modest increase in overall commitments in FY84 - could have a modest impact on disbursed loans and the sustainable level of lending. But this impact would be very minor if commitments return to presently planned levels in FY85 and FY86 and would be offset by the fact that repayment schedules for supplementary loans would be incorporated in the schedules for the corresponding original loans. The net effect should be to leave capital requirements essentially unchanged. ~~Our present estimate is that the sustainable level of lending would change only about $0.1 billion, which is well within the margin of error of our estimates.~~

52. <u>IBRD Net Income.</u> Net income ~~could be lower~~ would be in FY84 and FY85 as a result of the Action Program, particularly if the Bank's FY83 income allocation is immediately transferred to IDA (see below). The difference could be on the order of $20-25 million in FY84 and $30 million in FY85. These estimates are quite sensitive to the detailed composition (by currency and mautrity) of the additional borrowings, and to future interest rate developments as well as the extent to which the additional disbursements will be made under previously committed loans. Were there to be an increase in the

nominal cost of borrowing, the Bank's pool-based lending rate could also be higher, but the change would be unlikely to exceed a few basis points.

53. IDA. In the present circumstances, it will be difficult for IDA to finance even the relatively modest volume of accelerated disbursements implied by the Action Program. IDA disbursements are financed through calls on donors, 1/ and donors already face severe problems meeting existing calls because of current budget constraints. In these circumstances, any action which leads to additional budget expenditure in the near term is bound to be controversial and runs the risk of adversely affecting the negotiation for the next replenishment of IDA resources. IDA's tight cash position does not permit it to finance the disbursements out of funds already on hand. However, there are other ways in which the disbursements might be financed. A transfer of the Bank's FY83 income allocation to IDA immediately after the Bank makes the allocation would provide additional disbursement capacity.

IV. Conclusions and Recommendations

54. The proposed action Program is another step by the Bank to assist its members in dealing with an extraordinarily severe economic environment which has persisted very much longer than anticipated. Like the other steps -- the original SAL program, expanded recurrent cost financing, more flexible use of retroactive financing, new cofinancing techniques -- the Action Program by itself will not solve the problems of our members. No single institution has the capacity to do that. But together with the other measures taken by us,

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1/ Specifically, IDA encashes the notes which are deposited by donors as part of each IDA Replenishment.

the responses of bilateral donors and other international organizations, the Action Program will make an important contribution. Of course, the increased resource transfers are small compared with the external financing requirements of the developing countries. But that is not the proper yardstick. In the individual countries which receive support for an effective program of policy change in an inhospitable environment, the Action Program will make a significant contribution to removing financial bottlenecks to project completion, to maintaining existing plant and infrastructure and to helping ensure a proper balance between meeting urgent current needs for production and continuing to invest for the future.

55. And if what we are proposing now is insufficient -- either in volume or in terms of flexibility -- we will be obliged to consider further steps. The Bank must do whatever it can, consistent with the need for prudent financial management and with its high standards of quality, to help countries continue their efforts to restore growth, reduce poverty and to minimize the adverse impact of today's conditions on future generations.

56. To initiate the Action Program, we are recommending now only that the Board approve an increase in the FY83 Borrowing Program to $9.8 billion, and that it increase the FY83 ceiling on the short-term discount note program to $2 billion. The commitment levels and the borrowing program for FY84 and subseuqent years will be examined carefully over the next few months in light of consultation with borrowers on specific Action Program operations. These proposals will be reviewed in the normal way in the context of the FY84 program and budget discussions. In order to help fund the acceleration of IDA disbursements, we would expect to recommend in July that the Executive Directors approve IDA's immediate drawdown and use of the Bank's FY83 net income allocation as soon as the allocation is made.

57. We will proceed with the Action Program and provide the Executive Directors with an initial assessment at the end of 1983, by which time it should be possible to foresee better the economic situation for 1984 and, consequently, whether additional special actions will be required or the proposed program continued. As the Program is implemented, President's Reports for loans to countries within the Program will summarize the nature of the special actions being taken.

FORM NO. 89
(7-81)

THE WORLD BANK

ROUTING SLIP	Date 1-24-83

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Chernicki Secy.	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment	✓	Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

From M Boué 78232 E 1231

Mr. Clausnick 1-6-83

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

OPS/MC83-5

TO: Members of the Managing Committee

DATE: January 21, 1983

FROM: Ernest Stern, SVP, Operations ES.

cc: EBW

SUBJECT: World Bank Program of Special Assistance to Member Countries, 1983-84

Attached is a draft Board paper describing a World Bank program of special assistance for 1983-84. The paper is based on extensive consultations with the Regions as to what is feasible by way of shifts in the composition of the lending program and on what additional measures might be taken for those countries which meet reasonable criteria of self-help.

The program focusses on increasing resource transfers which make possible the more effective use of existing capacity and which will help to remove bottlenecks in the implementation of high priority projects. This does not require an increase in commitment in FY1983 and it is, at this stage, unclear whether it would require any increase in commitments for FY1984. The maximum increase required above the $11.9 billion planning figure is $1 billion, but a more likely estimate is $500 million. Because the amount is relatively small I thought it best not to address this issue now but to leave it for the submission of the FY1984 budget when it can be addressed in the context of our overall financial program. Staffing implications of an incremental $500 million for the Action Program would be minor.

There are two issues which are not addressed in the paper. First, we have retained the portfolio limits recently agreed to on the four large countries -- India, Brazil, China and Indonesia. If we are to relax those limits additional commitments would be feasible, particularly for Brazil in FY1984. Secondly, we have not relaxed our limit on lending to high income countries over the five year planning period. You should also be aware that, as the paper indicates, much of this program will benefit the Bank countries more than the IDA countries because we already finance a very large proportion of project costs in those countries and the institutional base for sector lending is weak.

The paper has been reviewed by the OPSC and comments have been incorporated. We would expect to distribute this paper to the Board on January 26.

Attachment

cc: Mr. Humphrey
Mr. Southworth

DRAFT

January 21, 1983

MEMORANDUM TO THE EXECUTIVE DIRECTORS

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence of an early recovery. Reflecting the growing interdependence of the world economy, industrialized and developing nations have, with few exceptions, been hard hit by the recession. Almost all of the World Bank's borrowers are experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and increasingly onerous debt burdens. The adjustment process following the shocks of the early 1970s was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, a boom in commodity prices, and low real interest rates. But since 1980 there has been little growth in net aid, commercial capital has carried record high real interest costs, trade has stagnated and commodity prices have collapsed. More recently, commercial bank lending has stagnated and in the last quarter of 1982 there was a decline in the net outstanding loans to developing countries. Many member countries have had to reduce and reorient investment programs, to curtail recurrent expenditures, and to delay the completion of high priority development projects. Programs in health, education and other social sectors have been particularly affected.

2. While there is an urgent need for balance of payments support, which the IMF is providing with assistance from the commercial banks, there is an equally urgent need to deal with the development aspects of the current crisis. High priority projects already under implementation must be completed; effective utilization of existing capacity is essential to income growth in contrained circumstances; an appropriate level of investment in human capital much be safeguarded if future development prospects are not to be maimed; existing capital stock must be maintained if future investment costs are not to be excessive; and quick yielding and export-oriented projects must be supported to generate domestic and external resources for future growth. It is in these areas that a special effort by the World Bank is necessary to supplement the short-term balance of payments and stabilization measures.

3. A World Bank Action Program is proposed for the next 24 months to assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development despite adverse external circumstances. Without reducing our concern for appropriate macro-economic or sectoral policies, without lowering our standards of project analysis and without weakening our portfolio quality, we propose:

(a) to help maintain project momentum by accelerating disbursements under existing and proposed loan commitments;

(b) to substitute high priority operations that support structural adjustment, policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations;

(c) to expand advisory services in the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other official lenders make similar efforts.

4. This paper presents a diagnosis of the current world economic situation and its impact, and then presents the Action Program we propose to undertake and the financial implications of this program.

II. The Impact of the Current World Economic Situation

The World Economic Situation

5. The world economic recession is exceptional in severity and duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth in the OECD countries and sustained high interest rates have resulted in much reduced growth in the developing countries.

6. During 1974-75, the commercial banks channelled a large amount of capital to the oil importing developing countries, official capital flows increased, and there was a boom in commodity prices. Together these helped offset the impact of higher energy prices and the rapid increases in prices of many manufactured goods. Rapid inflation reduced the real burden of carrying fixed interest debt, and world trade expanded rapidly, particularly as OECD growth recovered in 1976. Rapid growth in the oil exporting countries helped maintain the demand for exports from other developing countries, and increased their earnings from workers remittances. Thus, the oil importing countries were largely able to adjust and reduce the size of their current account deficits which declined from a peak of about 5% of GNP, in 1975 to about 2%, in 1978 roughly equal to average pre-1973 levels.

7. With the further increase in energy prices in 1979 and the recession in OECD countries accompanied by high real interest rates, the current account deficits of the oil importing developing countries again rose to about 5% of GNP. The deficits began to decline only slightly in 1982. While their current account deficits are likely to be significantly smaller in 1983, this reflects not a successful adjustment process, but reduced external financing and a consequent slowing down of growth. The accumulation of large debts, and a stagnant world economy have combined to reduce the creditworthiness of many developing countries. Debt servicing difficulties in several major borrowers have severely restricted access to commercial capital for almost all developing countries. Unlike the post 1974-75 recovery period, official assistance has not grown since 1980.

8. The task of restoring growth in the OECD countries now appears to be more difficult than initially anticipated. Although OECD growth rates fell from 3.2% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. This, however, did not materialize, and overall the OECD countries did not grow at all in 1982. A modest recovery is now forecast for 1983, 1.5% compared to 3.0% a year ago. Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1960-82

(percent)

	Industrial Countries	Developing Countries	
		Oil Exporters	Net Oil Importers
1960-72 (annual average)	4.9	6.7	5.7
1973	6.2	8.6	7.1
1974	0.6	7.0	5.6
1975	-0.6	4.0	3.6
1976	5.2	7.6	5.3
1977	3.7	5.2	5.3
1978	3.9	5.6	5.3
1979	3.2	8.5	3.2
1980	1.3	4.9	4.2
1981	1.2	-2.0	1.9
1982(preliminary estimates)	-0.2	1.0	1.5

Source: World Bank for 1960-81; OECD estimates for 1982.

9. The decline in demand in the industrial countries has resulted in a slowdown in the growth of world trade. The volume of world trade stagnated in 1981, and declined slightly in 1982. In the OPEC countries, export volumes have declined by an average of about 15% per year from 1980 to 1982, reflecting reduced demand in industrial countries for oil as a result of the recession and as a result of higher prices and consequent conservation measures. As unemployment has risen in developed countries, there has been growing pressure for protectionist actions often aimed at imports from developing countries. As a result of these factors, the volume exports from the oil-importing developing countries is estimated to have grown only about 3.5% in 1982, compared to an average of over 8% during 1978-80.

10. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured

imports, and lower interest rates, these beneficial effects have been more than offset by steep declines in primary commodity prices. The World Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 6% in 1980, and about 4% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. Their terms of trade deteriorated by about 25% between 1979 and 1982.

11. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' import volumes have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three consecutive years.

Table 2: Changes in Terms of Trade

	1979	1980	1981	1982	1983
Industrial Countries	-2.4	-7.8	-1.1	1.5	0.5
Developing Countries					
Oil Exporting	29.1	41.5	10.8	-1.0	-2.0
Non-Oil importing	-0.3	-6.2	-3.9	-3.5	-1.0
o.w. Low-Income	-1.8	-13.0	-10.8	-3.5	-1.0

Source: 1979-82 IMF, draft WEO 1983; 1983 based on OECD estimates.

12. During the initial years of the current recession, the developing countries, particularly the oil exporters and major exporters of manufactures, were able to offset adverse external events in part by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from

about $350 billion in 1979 to about $530 billion in 1982.1/ Only one-third ($60 billion) of the increase came from official sources, the rest from private sources, chiefly commercial banks. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens, especially those that had borrowed on shorter maturities. This was particularly true of countries, such as the oil exporters, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico). This has made the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment.

13. Policy reforms, bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. As a result, developing countries are being forced to reduce imports, investment, and their growth objectives.2/

1/ World Bank/EPD data. OECD estimates a total of $626 billion, but covers countries not included in the EPD data base (e.g., Spain, Saudi Arabia, Iran, Iraq).

2/ A more detailed analysis of the causes of the present crisis was presented in WDR 1982. Updated views on the current world economic situation will be presented in the WDR 1983.

Country Experience: Macroeconomic Impact

14. There is considerable variation in the impact of the international situation on individual countries, but there are also broad similarities. Most countries have experienced, in varying degrees:

- cutbacks in investment plans and the slowdown of on-going projects because of shortages of domestic and external funds;
- import reductions because of stagnant or declining foreign exchange earnings, reduced inflows of external capital, and rising debt service requirements;
- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;
- shortages of funds to finance the operation and maintenance of existing facilities.

15. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's credit-worthiness and access to private capital, while its high per capita income generally precludes it from receiving concessional assistance. Borrowings from the IMF already total 380% of quota.

16. Some countries, of course, were facing severe problems even before the current recession (e.g. Argentina, Bolivia, Sudan, Zaire), largely because

of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

17. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the government's budgetary deficit from an expected 2.4% to 5.3% of GDP for 1981-82. Despite new revenue measures enacted by the government in this fiscal year, and 5% domestic inflation, revenues were 18% lower than expected and only marginally higher than the previous year. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23% higher than budgeted. As a result, there was a 12% reduction in development expenditures.

18. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

19. Many countries are taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external borrowings. Bangladesh, faced with declining export prices, poor weather and stagnating aid levels, in 1982 responded by introducing a series of new tax measures, reduced fertilizer and food grain subsidies, and raising prices of petroleum products, electricity tariffs and natural gas.

20. Latin American countries have been particulary affected by the reduction in access to new commercial credits. A number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF assistance. While these programs vary somewhat among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to mean slower growth, or even no growth at all, in these countries in 1983.

21. In the case of Mexico, for instance, the Government has agreed to reduce its budgetary deficit from 16.5% of GDP in 1982 to 8.5% in 1983, to limit the growth of new foreign borrowing, and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure about $19 billion of existing debt. It is estimated that net new financing of $7 billion will be required in 1983. Of this amount $5 billion is being sought from the commercial banks and $2

billion from official sources. While these measures will help, Mexico still has major structural problems to confront.

22. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. In Pakistan, for instance, a number of steps have been taken since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irrigation system, while the investment program in irrigation has been reoriented toward projects having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into the manufacturing and energy sectors, and energy prices have been made more realistic.

23. While these reforms have been supported by the Bank (a SAL) and the Fund (an EFF), much more needs to be done. In the past year, although the value of Pakistan's imports increased by 2%, the current account deficit increased by 54%, principally due to a sharp decline in agricultural export prices and slower growth in migrant remittances. In addition, net disbursements of official bilateral assistance have continued to decline from the level in the mid-70s. Without an improvement in export prices and increased external support, it will be difficult for the government to carry out its structural adjustment program.

24. Almost all countries now face difficult decisions as they attempt to balance reductions in investment programs with imposition of new financing

measures or greater external borrowing. There is always the danger that in choosing among these alternatives, countries will tend to eliminate government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a very adverse impact on long-term growth and social stability.

Country Experience: The Impact on Bank-Financed Projects

25. Bank assisted projects have not been immune from the pressures on investment programs. A recent Bank report on project implementation notes that the impact of the worldwide recession on developing countries and their difficulties in making the necessary adjustments in their economies are reflected in increasing delays in the implementation of projects; these economic problems affect adversely the entire process of policy decision making, as well as the ability of the governments to provide adequate managerial and financial resources. The report estimates that 18% of all Bank/IDA projects now suffer from major disbursement delays (compared to 9% two years ago), largely related to the inability of borrowers to provide adequate counterpart funds.

26. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, some Bank-financed national industrial development banks have experienced reduced profitability and/or increasing loan arrears, as in projects in Korea, the Philippines, Colombia, Morocco and Kenya. Agricultural projects expected to produce goods for exports have been affected by declining commodity prices, e.g., projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been impeded by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds.

III. Bank Response: An Action Program

Scope and Objectives

27. While the World Bank cannot, and should not, attempt to finance the balance of payments deficits of its members, it has a responsibility to assist member countries with policy advice and special financial assistance so as to maintain the maximum possible level of development activities and minimize the erosion of future growth prospects.

28. Because there is a reasonable expectation that the world economy should begin to recover within the next 12-24 months, and consequently the severity of the pressures on the developing countries may be attenuated, the proposed Action Program concentrates on results over the next two years. If recovery takes longer than anticipated the Program can be extended. The Program aims at enhancing the effectiveness of resource use in countries that are making a determined effort to implement appropriate adjustment policies. It entails an increase in policy advice to help countries strengthen their development programs, measures to accelerate disbursements on existing loans, and shifts in the pattern of new commitments in favor of quick-yielding investments, which generally also involve fast-disbursing operations. The special assistance will be available to countries which have an appropriate policy framework in place, where investment programs have been or are being adjusted to resource availabilities, where adequate efforts are being made at resource mobilization, or where the assistance can support appropriate policy changes and adjustment measures. This will require continued close collaboration with the IMF to assure that reductions in demand take appropriate account of longer term development objectives and to assure that the Bank's

support complements the general fiscal and monetary measures in sectoral policies and project activities.

29. Our present assessment is that such changes can be accommodated in the Bank's planned commitment levels for FY1983 and probably also in FY1984, since many countries are reducing their investment programs, and the number of new investment starts will be substantially reduced. However, should further examination of individual country investment programs indicate a need for a revision of the planned FY1984 commitment level, we will make the appropriate recommendations in the context of the FY1984 Budget and Operating Program.

30. The Bank's ongoing country economic and sector work puts the Bank in an excellent position to determine how it can best support governmental actions and to evaluate which borrowers can benefit from the various measures proposed. The many factors that are relevant to such evaluations include the appropriateness of the pricing framework to stimulate production and exports, the composition and scale of the investment program, the government's efforts to contain budgetary and current account deficits, and the impact of budgetary changes on expenditures on human capital development and vulnerable income groups. An enhanced program of economic and sector work, as well as additional technical assistance, will be an essential ingredient. The Bank will consult bilateral and other multilateral lenders and urge them to support these initiatives through parallel actions of their own.

31. The Bank's Action Program involves temporary changes in certain Bank practices and procedures, as described below, and a shift in the type of project to meet the current economic situation in many of our borrowers. No aspect of the Action Program involves a lowering of Bank standards of macro-economic and sectoral policy conditionality, creditworthiness or project related conditions. Rather, it is designed to assist borrowers in taking all appropriate actions to offset the adverse effect on development of the severe

short-term liquidity problems caused by the current global economic environment.

Major Elements of the Program

32. Expanded Structural Adjustment Lending. Structural adjustment lending has been a valuable tool for helping borrowers design and implement major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick disbursing assistance. SALs have provided an excellent opportunity for enhanced policy dialogue on broad economic and sectoral policies. As economic conditions have worsened, a number of additional countries have plans to make broad policy changes and have explored the possibility of Bank support. Several additional countries are likely in the near future to adopt policy reforms that will satisfy established SAL performance criteria.

33. Until now Management has restricted the size of SALs to about 30% of a country's lending program, consistent with the Bank's primary emphasis on project lending. Under current circumstances, however, massive reductions in investment programs may, jusfifiably, leave little scope for new starts, while the scale of policy changes called for is larger than heretofore, and the need for speed in implementation is greater. It is necessary therefore to alter this yardstick. We propose that the size of SALs be proportionate to the scope and complexity of the adjustment program being undertaken, even if this means that temporarily the SAL component will be a larger share of the country's lending program. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. Should it appear that an increased number of structural adjustment programs can be worked out so that total SAL and program

loan commitments would exceed 10% of the Bank's lending program, Management will, as previously indicated, bring the issue to the Board for consideration.

34. Sector Adjustment Support. There are many countries in which policy reforms focussed on specific sectors are more appropriate than comprehensive SAL programs. The objective of such operations are two-fold: to support necessary policy changes and administrative improvements, and to provide the resources necessary to utilize existing productive capacity more efficiently. Three general categories of such loans, utilized in the past, involve export development, rehabilitation and modernization of existing plants, and provision of current agricultural inputs as part of a broad program to modify the incentive structure.

35. An example of this type of export development is the Export Development Fund loan approved for Jamaica. The loan finances a revolving fund which enables exporters to obtain raw materials, spare parts and minor equipment necessary for current production. The foreign exchange is repaid by the exporters in 6-12 months out of their export earnings. The objective of such loans is to ensure that the shortage of foreign exchange does not lead to underutilization of export capacity which would reduce foreign exchange earnings further. Such loans can, of course, be effective only if export competitiveness is maintained and if other incentives for export production are appropriate.

36. Lending for rehabilitation and modernization has been done in a number of countries. For instance, the Agricultural Rehabilitation Credit in the Sudan served to rehabilitate the cotton production system, Sudan's principal export. The credit provided necessary inputs for production and was based on a program of physical rehabilitation and agreement to improve the incentive structure, marketing and input distribution systems. Such

operations need not, of course, be limited to agriculture. There is scope for such operations in industry, power, roads and transport where budgetary pressures in recent years have reduced maintenance below levels needed by the equipment, thus forcing use at below full capacity.

37. An example of lending for agricultural inputs, as part of a reform of sector policies, is the fertilizer import loan to Pakistan. In general, subsidies for agricultural inputs are a major drain on government budgets, displacing higher priority development investments. This is happening now in Nigeria, where many agricultural projects have come to a halt because the States can not finance their share -- because the bulk of State expenditures in agriculture are earmarked for the fertilizer subsidy. Action to reduce these subsidies, and phase them out gradually, is facilitated if adequate supplies of fertilizer to the farmer can be assured through increasing imports, or production, and by improving marketing and distribution systems.

38. <u>Financing an Increased Share of Project Costs</u>. The Bank generally finances the foreign exchange costs of projects. In the middle and higher income countries, exceptions to this rule are made only for projects in which the foreign exchange component is very small. This is often the case in projects in agriculture or the social sectors. In those cases the Bank generally finances 35% of project costs -- a percentage thought necessary to ensure adequate Bank involvement in project design and implementation. In the lower income countries, the Bank also finances a portion of the local costs, taking account of the limited capacity in these countries to mobilize public resources. In the poorest countries, the Bank finances up to 90% of project costs. In all countries, the share of project costs financed by the Bank is affected by the availability of cofinancing. Consequently, the Bank may finance less than the full foreign exchange costs or may agree to total external financing covering up to 95% of project costs.

39. We propose to modify these criteria for cost sharing for the balance of FY1983 and FY1984 on a country- and project-specific basis, to help ensure the completion of high priority projects and programs as expeditiously as possible. Financing a larger share of project costs may involve fewer projects, which is precisely what is appropriate under present circumstances. In the present circumstances, borrowers are responding appropriately and with the full encouragement of the Bank, by reducing their investment programs, including, wherever appropriate, cancellation of Bank-financed projects. To obtain the benefits of the additional output as soon as possible, priority for available funds must be given to completing high priority projects under implementation, but which have been delayed by the shortage of foreign exchange or budgetary resources. However, since disbursements under projects approved in FY1983 and FY1984 will be small, it is proposed to increase the Bank's share of project financing on existing as well as new projects. We would therefore plan:

- to reduce the scope of ongoing projects where appropriate while retaining the entire amount of Bank financing so that the Bank effectively would cover a higher percentage share of costs;
- to consider supplementary loans for ongoing projects to increase the Bank's share of financing, including interest during construction where appropriate. The amortization for such loans would be incorporated in the schedule of the original loan. Retroactive financing would be limited to eligible expenditures incurred in the last 12 months. Such loans would include an agreed implementation plan to accelerate project completion;

- in exceptional cases, where a set of similar Bank-financed projects is affected by budgetary constraints, the problem would be addressed through a single supplementary loan usually in a single sector, with provisions to ensure the appropriate allocation to individual projects;
- to restructure loans which finance broad programs in such areas as irrigation, water supply and feeder roads. By reducing the time period covered by the project we would increase the share of costs we would finance. This will require government commitment to complete the balance of the program -- already a standard feature of such loans; and
- to make increasing use of revolving funds. These funds, into which the Bank deposits in advance funds required for expenditure in 60 days, were not as commonly used in the past as today. They avoid tying up scarce foreign exchange resources for eligible expenditures while awaiting Bank reimbursement. They are replenished as disbursement requests are processed.

40. These, and similar measures, will provide additional resources quickly to countries and implementing agencies to help alleviate budgetary and foreign exchange bottlenecks. In addition, for new commitments in FY1983 and FY1984 we would:

- consider financing a larger share of recurrent costs for the next two to three years, offset by a sharper reduction in the later years;

- emphasize maintenance and rehabilitation projects in view of their importance in helping to utilize existing investments;
- consider financing working capital requirements in loans to DFCs, or other financial intermediaries.

41. Enhanced Policy Dialogue. Increasing the pace of resource transfers will be supplemented by a further expansion of analytical support. The Bank will help governments, on request, review investment programs, macro-economic policies and trade and pricing policies, expand its assistance for debt management either through technical assistance credits or staff support, and assist in assessing changes in development priorities. Country economic and sector work has expanded in FY1982 and again in FY1983. We expect further growth will be required in FY1984 too.

42. Coordination with Other Donors. The Bank's Action Program will be of importance in individual countries but to achieve maximum impact it will require the active participation of other donors. The Bank will intensify its use of various consultation mechanisms with other international lending institutions and bilateral aid donors to urge consideration of similar measures especially as there is some evidence that disbursements by bilateral donors have been curtailed to meet their own budgetary problems. Meetings of aid consultative groups, and the consultation meetings with bilateral and regional organizations provide appropriate fora for discussions both on actions for individual countries and temporary changes in general lending practices.

Financial Implications of the Action Program

43. The basic objective of the Action Program is to assist those countries seeking to deal effectively with the current adverse economic

conditions and, to the extent possible, maintain their development momentum. This will be done, by accelerating the transfer of resources out of existing and new commitments in support of effective programs of policy change and adjustment. The initial assessment suggests that in FY1983 any commitments for supplementary loans or expanded sectoral support activities can be accommodated within the approved Bank lending program because of the decline in new investment in numerous borrowing countries. For FY1984 we will review lending requirements in the next few months and should any revision in the presently planned Bank commitment level of $11.9 billion be considered necessary we will make the appropriate recommendations in the FY1984 Budget and Operating Program.

44. Regrettably, IDA resources remain severely constrained, and there is little scope for increasing commitments above presently planned levels. Even though IDA countries are not generally affected by absorptive capacity constraints at the present time, IDA will again not have the capacity to support adequately the investment programs in the low income countries nor to provide special financial support for programs of policy change. Moreover, the steps designed to increase cost sharing will be less significant in IDA countries since IDA already finances a very high share of total costs. IDA countries can nevertheless benefit from the proposed program. With limited access to other resources, the shift in composition and more rapid disbursement should help ease the difficulties these countries face in dealing with the present problems.

45. The Action Program will have a modest impact on disbursements in FY1983, since only five months remain, but it will have a more significant effect in FY1984 and FY1985. It is not possible to be precise about the disbursement impact of the Action Program in advance of consultations with governments and the estimates below are therefore tentative.

Projected IBRD/IDA Disbursements
($ million; percentages)

	FY83	FY84	FY85	Total
IBRD				
Disbursements	7300	8300	9400	24000
Net Resource Transfers	2400	2200	2000	6600
Additional Disbursements from Action Program	300	1300	700	2300
Additional Disbursements as as % of Proj. Disbursements	4.1	15.6	7.4	9.6
Additional Disbursements as % of Proj. Net Transfers	12.5	59.1	35.0	34.8
IDA				
Disbursements	2500	3000	3500	9000
Additional Disbursements from Action Program	-	150	100	250
Total	2500	3150	3600	9250

The estimated increase in IBRD disbursements attributable to the Action Program totals $2.3 billion over the FY83-85 period and represents almost 10% of total projected disbursements for those years. However, relative to estimated net transfers of $6.6 billion over the three year period, the increase in disbursements is about 35%, a significantly increased level of assistance to member countries.

46. IBRD. The major impact of the Action Program on the Bank's financial position would be on the borrowing program. Borrowings would have to be increased in order to finance the additional disbursements. The borrowing program over the FY83-FY85 period would not have to be increased by the full $2300 million, however, since a part of the additional disbursements in FY83-FY85 are accelerations of current plans and so would be offset by lower disbursements in later years. As a rough estimate, borrowings would need to be increased by about $2 billion over the FY83-85 period.

47. The phasing of this additional borrowing should take account of the fact that our borrowing program for FY83 is already well advanced. Moreover, since we anticipate some firming of US dollar interest rates in FY84, there is a case for concentrating the additional borrowings in the early part of the FY83-FY85 period. The phasing shown below would be consistent with maintain ing the Bank's liquid holdings at or above 40% of the following three years' net cash requirements, as provided under our current liquidity policy.

IBRD Gross Borrowings
($ million)

	FY83	FY84	FY85	Total
Borrowing Program in FY83 Budget	9000	9800	11400	30200
Action Program	800	800	400	2000
Revised Borrowing Program	9800	10600	11800	32200
Memo Item:				
% of Next 3 Yrs. Cash Requirements	[41%]	40%	40%	

48. To complete the increased borrowings in FY83 and FY84 at minimal cost, it may be desirable to raise the present $1.5 billion ceiling on short-term borrowing to $3 billion of which not more than $2 billion would be utilized in FY83. For FY84 the composition of an enlarged borrowing program - and hence its average cost - would depend on the decisions of the authoritiesin various capital markets regarding the degree of Bank access to their markets for new issues as well as for swap transactions.

49. The average cost of the additional borrowing may go up slightly since much of the incremental borrowing would be done in US dollars or in other currencies with a nominal cost higher than the average cost of the current program. The cost of additional borrowing in FY83 can be estimated at around 10%, compared with the presently projected cost of around 9%.

50. The implications of the Action Program for IBRD capital requirements need to be considered both from the perspective of what is required under the Bank's Articles and from the perspective of the Bank's existing policy on the

timing of capital replenishment. Under the Articles of Agreement 1/ the Bank must not increase its loans (on a disbursed basis) beyond the level of its total subscribed capital and reserves. Given presently planned IBRD commitment levels for FY83 and future years, this limit would be reached in the early 1990's - probably in FY91 or FY92. Since loans that have already been committed would be virtually fully disbursed by that time under normal disbursement patterns, the part of the Action Program which results in accelerated disbursements under past commitments should have a negligible impact on the total volume of IBRD loans than outstanding. Hence, this part of the Program would not alter the date when additional capital is required under the Articles. The restructuring of the commitment program for FY84 - both the shifts toward faster disbursing loans and the possible modest increase in overall commitments - could have a modest impact on disbursed loans. But this impact would be offset by the fact that repayment schedules for supplementary loans would be incorporated in the schedules for the corresponding original loans. The net effect should be to leave capital requirements - as determined under the Articles - essentially unchanged.

51. The timing of decisions on IBRD capital replenishment is also affected by the Bank's current policy of not increasing commitments beyond the so-called "sustainable level" of lending. 2/ If there is no increase in IBRD

1/ Article III, Section 3 of the Bank's Articles requires that loans (and guarantees) not be increased beyond the total of subscribed capital and reserves.

2/ [During negotiations for a Selective Capital Increase in 1976, the Executive Directors approved a management recommendation that the levels of Bank operations be planned in a way that in the "absence of ..a further [capital] increase, future adjustments of plans [should not be] so large as to substantially distort or disrupt operations." The intention behind the policy is to avoid a situation in which member governments would either have to approve an increase in IBRD capital or accept a disruptive adjustment in IBRD operations.]

commitments as a result of the Action Program, then there would clearly be no impact on the timing of capital replenishment. Even if there is a modest increase in commitments in FY84 - say, less than $1 billion - and if this is followed by a return to presently planned commitments in FY85 and FY86, then the impact on the sustainable level would be very minor: the change would be on the order of $0.1 billion.

52. Net income could be lower in FY84 and FY85 as a result of the Action Program; the difference could be on the order of [$20 million] in FY84 and perhaps twice that level in FY85. These estimates are quite sensitive to the detailed composition (by currency and maturity) of the additional borrowings. Because of the higher nominal cost of borrowing, the Bank's pool-based lending rate would also be higher by a few basis points in FY84.

53. IDA. In the present circumstances, it will be difficult for IDA to finance even the relatively modest volume of accelerated disbursements implied by the Action Program. IDA disbursements are financed through calls on donors,1/ and donors already face severe problems meeting existing calls because of current budget constraints. In these circumstances, any action which leads to additional budget expenditure in the near term is bound to be controversial and runs the risk of adversely affecting the negotiation for the next replenishment of IDA's resources. IDA's light cash position does not permit it to finance the disbursements out of funds already on hand. However, there are other ways in which the disbursements might be financed. A transfer of the Bank's FY1983 and FY1984 income allocations to IDA immediately after the Bank makes the allocation would provide additional disbursement capacity

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1/ Specifically, IDA encashes the notes which are deposited by donors as part of each IDA Replenishment.

in FY1984 and FY1985 of approximately the appropriate magnitude. Were this to prove insufficient, consideration would be given to a limited waiver of the provisions governing the use of previous Bank income allocations to IDA. Such a waiver might permit the Association to draw on prior transfers to meet increased disbursements. This would require action by the Executive Directors to amend the earlier resolutions governing Bank transfers.

IV. Conclusions and Recommendations

54. The proposed Action Program is another step by the Bank to assist its members in dealing with an extraordinarily severe economic environment which has persisted very much longer than anticipated. Like the other steps -- the original SAL program, expanded recurrent cost financing, more flexible use of retroactive financing, new cofinancing techniques -- the Action Program by itself will not solve the problems of our members. No single institution has the capacity to do that. But taken together with the other measures taken by us, and the responses of bilateral donors and other international organizations, the Action Program will make an important contribution. Of course, the increased resource transfers are small compared with the external financing requirements of the developing countries. But that is not the proper yardstick. In relation to the individual countries which seek support for an effective program of policy change in an inhospitable environment, the Action Program will make a highly significant contribution in removing financial bottlenecks to project completion, in maintaining existing plant and infrastructure and in helping to ensure a proper balance between meeting urgent current needs for production and continuing to invest in the future.

55. And if what we are proposing now is insufficient -- either in volume or in terms of flexibility -- we will be obliged to consider further steps. The Bank must do whatever it can, consistent with the need for prudent financial management and with its high standards of quality, to help countries continue their efforts to restore growth, reduce poverty and to minimize the adverse impact of today's conditions on future generations.

56. We recommend that in order to help meet the acceleration of IDA disbursements the Executive Directors approve the use of the prospective transfer of FY83 income to IDA immediately after the allocation is made. We

will proceed with the Action Program and provide the Executive Directors with an initial assessment at the end of 1983, by which time it should be possible to foresee the economic situation for 1984 and, consequently, whatever additional special actions will be required or the proposed program continued. As the Program is implemented, President's Reports for loans to countries within the Program will summarize the nature of the special actions being taken.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Operations Policy Sub-Committee

DATE: January 19, 1983

FROM: Sidney E. Chernick, Assistant Director, CPD

SUBJECT: Annex Table to Draft Paper: "World Bank Program of Special Assistance to Member Countries, 1983-84

Attached for discussion at the OPSC meeting tomorrow, is an annotated table showing the implications of the Action Program for the FY83 and FY84 lending programs.

Attachment

cc: Ms. Pratt

FY83-84 IBRD Lending Program uding Action Program
($ million)

	FY83				FY84				
	Adj. IVx (12/31/82)a/	SAP b/	Revised Lending Program	Carryover into FY84	Adj. IVx (12/31/82)c/	SAP b/	Revised Lending Program	Carryover into FY85	Remarks
Eastern Africa									
Botswana	33	-	33	-	5	14 (0)	5	-	FY84 SAP not included as substantial increase in approved FY83-84 lending level would be required.
Kenya	88	-	88	-	230	50 (50)	280	-	
Malawi	-	-	-	-	30	30 (30)	30	30	FY84 SAP included. Suggest two projects be carried over into FY85.
Mauritius	42	15 (15)	57	-	25	-	25	-	
Zambia	-	70 (0)	-	-	60	-	60	-	Lending conditional on improved creditworthiness.
Zimbabwe	201	-	201	-	86	10 (10)	96	-	
Total	364	85 (15)	379	-	436	104 (90)	496	30	
Western Africa									
Cameroon	91	-	91	-	73	-	73	-	
Congo	13	-	13	-	35	-	35	-	
Ivory Coast	75	223 (23)	98	200	301	-	300	-	FY83 SAL included in FY84 program. FY83-84 revised program exceeds approved FY83-84 program by $112 m.
Nigeria	120	-	120	66	472	100 (0)	472	-	FY84 SAP program, which is an addition to a fertilizer imports project now in the base program, is not included in the revised program.
Total	299	223 (23)	322	266	881	100 (0)	880	-	
EMENA									
Egypt	256	-	256	176	776	70 (0)	776	-	FY84 SAP not included as feasibility of lending program is questionable.
Hungary	240	-	240	-	200	-	130	70	
Portugal	167	-	167	-	194	-	194	-	
Romania	87	-	87	100	425	200 (200)	325	300	Given uncertainties of the program, the FY84 revised lending program is assumed at the same level as in FY82.
Yugoslavia	550	380 (250)	580	220	490	-	290	200	Only FY83 SAL from SAP included in FY83 program. Deferrals of projects from FY83 to FY84 and from FY84 into FY85 suggested to limit the excess over approved FY83-84 lending program.
Algeria	-	-	-	-	140	-	140	-	
Cyprus	22	-	22	-	12	-	12	-	
Jordan	36	-	36	-	75	-	75	-	
Lebanon	100	-	100	-	50	-	50	-	
Morocco	247	-	247	-	321	100 (100)	321	100	Given level of approved FY83-84 program, suggest deferrals into FY85 amounting to $100 m. if the FY84 SAP is to be included.
Tunisia	124	-	124	34	169	50 (0)	169	-	Given level of approved FY83-84 program, suggest deferrals into FY85 amounting to $60 m. if the FY84 SAP is to be included.
Turkey	400	-	400	200	882	70 (70)	702	250	SAL V carried over into FY85 as SAL IV is now included in the FY84 program.
Total	2229	380 (250)	2259	730	3734	490 (370)	3184	920	

	FY83				FY84				
	Adj. IVx (12/31/82)a/	SAP b/	Revised Lending Program	Carryover into FY84	Adj. IVx (12/31/83)c/	SAP b/	Revised Lending Program	Carryover into FY85	Remarks
LAC									
Chile	120	-	120	-	75	-	75	-	
Costa Rica	30	-	30	-	75	5 (5)	80	-	
Dom. Republic	12	-	12	-	50	65 (45)	50	45	Given FY83-84 approved lending level, we assume deferral of Industrial Sector project into FY85 if SAP for $45 m. is to be included in FY84.
Ecuador	41	-	41	-	21	-	21	-	
El Salvador	-	-	-	-	-	40 (0)	-	-	
Guatemala	55	30 (0)	55	-	50	30 (20)	50	20	Given FY83-84 approved lending level, we assume deferral of Education III project into FY85 if SAP for $20 m. is to be included in FY84.
Honduras	45	-	45	-	15	110 (20)	35	-	SAP for $20 m. included in FY84.
Mexico	823	450 (0)	823	200	575	-	475	100	FY83 SAP for $200 m. included in FY84 program. Additional $250 m. for industrial exports in FY83 not included. Suggest deferral of $100 m. into FY85 to limit excess over aproved FY83-84 lending level.
Panama	53	-	53	-	42	50 (25)	67	-	
Peru	237	35 (35)	272	-	294	55 (20)	314	-	Additional $35 m. of SAL in FY84 not included.
Argentina	-	-	-	-	200	-	200	-	
Bolivia	-	-	-	-	60	-	60	-	Lending conditional on improved creditworthiness.
Brazil	1580	400 (0)	1580	-	951	600 (450)	1051	350	Given FY83-84 approved lending level, FY83 SAP not included. We assume deferrals into FY85 for $350 m. if SAP for $450 m. is to be included in FY84.
Colombia	27	25 (25)	52	-	454	-	454	-	
Guyana	15	-	15	-	20	-	20	-	
Jamaica	105	-	105	-	70	-	70	-	
Paraguay	40	-	40	-	39	-	39	-	
Uruguay	100	-	100	-	-	70 (0)	-	-	FY84 SAP not included given FY83-84 approved lending level.
Total	3283	940 (60)	3343	200	2991	1025 (585)	3061	515	

	FY83 Adj. IVx (12/31/82)a/	FY83 SAP b/	FY83 Revised Lending Program	FY83 Carryover into FY84	FY84 Adj. IVx (12/31/83)c/	FY84 SAP b/	FY84 Revised Lending Program	FY84 Carryover into FY85	Remarks
East Asia & Pacific									
China	474	-	474	-	960	-	960	-	
Indonesia	898	-	898	117	1032	380 (150)	1182	-	Only $150 m. of proposed FY84 SAP program included to keep within the FY83-84 approved lending level.
Korea	670	100 (0)	670	-	680	50 (50)	480	250	Given FY84 SAL, FY83 SAP not included. Assume deferrals into FY85 of $250 m. to keep with FY83-84 approved lending level.
Malaysia	142	-	142	-	198	100 (100)	190	108	Assume deferrals into FY85 of $108 m. to allow FY84 SAP for $100 m.
PNG	45	-	45	-	49	-	49	-	
Philippines	497	150 (0)	497	100	631	60 (60)	526	165	FY83 SAP not included in view of SAL in same year. Suggested revised FY84 lending program assumes SAP of $160 m. (including $100 m. from FY83) and deferrals to FY85 of other projects amounting to $165 m.
Thailand	637	200 (0)	637	92	651	250 (0)	651	-	FY83-84 SAPs not included as current programs already include SALs for both years.
Total	3363	450 (0)	3363	309	4201	840 (360)	4038	523	
South Asia									
India	1138	100 (0)	1138	-	1240	450 (0)	962	278	FY83-84 current lending program is already above approved lending level. If SAP provisions are to be made, additional deferrals into FY85 will be necessary.
Pakistan	90	-	90	-	209	60 (60)	269	-	
Sri Lanka	-	-	-	-	90	55 (0)	90	-	FY84 SAP not included as additional IBRD lending could not be justified on creditworthiness grounds.
Total	1228	100 (0)	1228	-	1539	565 (60)	1321	278	
Bankwide	10766	2178 (348)	10894	1505	13782	3124(1465)	12980	2266	

a/ IVx of 12/31/82 as adjusted by lending program agreed in Mr. Stern's meetings with RVPs on 12/26/82.
b/ SAP as proposed by the Regional Offices to CPD. Figures in parentheses indicate SAP included in the revised lending program.
c/ IVx of 12/31/82 as adjusted for carryovers from FY83.

PABCP
1/17/83

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the Operations Policy Subcommittee

DATE: January 18, 1983

FROM: E. Bevan Waide, Director, CPD VBW.

SUBJECT: Draft Paper: World Bank Program of Special Assistance to Member Countries, 1983-84

The Operations Policy Subcommittee will meet on Thursday, January 20 at 9:30 a.m. in Room E-1208 to consider the attached paper. An annotated table showing the implications of the Action Program for the FY1983 and FY1984 lending programs, will be distributed tomorrow, January 19, as prepared by PAB.

Attachment

cc: Ms. Pratt

DRAFT for OPSC Review

January 18, 1983

MEMORANDUM TO THE EXECUTIVE DIRECTORS

WORLD BANK PROGRAM OF SPECIAL ASSISTANCE TO MEMBER COUNTRIES, 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence of an early recovery. Reflecting the growing interdependence on the world economy, industrialized and developing nations have, with few exceptions, been hard hit by the recession. Almost all of the Bank's borrowers are experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and increasingly onerous debt burdens. The adjustment process following the shocks of the early 1970's was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, a boom in commodity prices, and low real interest rates. But since 1979 there has been no growth in aid, commercial capital has carried record high real interest costs, trade has stagnated and commodity prices have collapsed. Many Bank borrowers are being forced to reduce and reorient investment programs, curtail recurrent expenditures, and delay the completion of high priority development projects. Programs in health, education and other social sectors are likely to be particularly affected. Bank financed projects have been directly affected by these pressures.

2. What can the Bank do in the face of this exceptional loss of development momentum? While the IMF and the commercial banks are the major sources of financial support to meet short-term balance of payments needs, there is also an urgent need to deal with the development aspects of the current crisis to assure completion of high priority projects already under implementation. In addition, there is a need to shift toward quick yielding and export oriented projects, to utilize existing capital more effectively and to safeguard an appropriate level of investment in human capital. Such circumstances require a special effort.

3. A World Bank Action Program is proposed for the next 24 months to assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development despite adverse external circumstances. Without lowering standards or weakening portfolio quality, the Bank proposes:

(a) to accelerate disbursements under existing and proposed loan commitments, in order to maintain project momentum;

(b) to substitute high priority and fast disbursing operations that support structural adjustment and policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations;

(c) to expand its advisory services in the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other lenders make similar efforts.

4. This paper presents a diagnosis of the current world economic situation and its impact, and then presents the Action Program we propose to undertake and the implications this program has for the Bank's finances and staffing.

II. The Current World Economic Situation and Problems to be Met

The World Economic Situation

5. The world economic recession is exceptional in its severity and its duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth and sustained high interest rates in the industrialized countries have resulted in much reduced growth in the developing countries.

6. During the 1974-75 recession, a large amount of private capital was recycled through the banking system to the oil importing developing countries, and official capital flows were increased. In addition, there was a boom in commodity prices during 1974 which helped offset the impact of higher oil prices for many countries. Rapid inflation also reduced the real burden of carrying fixed interest debt, and world trade expanded rapidly, particularly as OECD growth recovered in 1976. Rapid growth in the oil exporting countries also helped maintain the demand for exports from other developing countries, and increased their earnings from workers remittances. Thus, the oil importing countries were largely able to adjust and reduce the size of their current account deficits which declined from a peak of about 5% of collective GNP, to about 2%, roughly equal to average pre-1973 levels.

7. Since 1980, current account deficits have averaged about 5% of GNP for the oil importing developing countries as a group, and began to be reduced only slightly in 1982. Their current account deficits are likely to be significantly smaller in 1983 as growth slows down further. This reflects not a successful adjustment process, but reduced external financing. The accumulation of a large debt burden from past loans and a stagnant world

economy have combined to reduce the creditworthiness of many developing countries, and their access to commercial capital. Unlike the post 1974-75 recovery period, there has been no increase in official assistance.

8. The late-1979 and early-1980 oil price increases added to already existing inflationary pressures in many developed countries. In an attempt to control this inflation, some of the larger countries adopted deflationary policies which slowed growth and raised interest rates. The present recession has thus been unusual in that record high real interest rates have added to the adjustment burden of the developing countries. Up to 1978 most developing countries' debt was contracted at fixed interest rates, so increasing inflation lowered their real debt burden; the move to variable interest rate borrowing eliminated this windfall gain.

9. The task of restoring growth in the OECD countries now appears to be more difficult than initially anticipated. Although OECD growth rates fell from 3.2% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. Current OECD forecasts, however, have been revised downwards and show only a weak recovery in the second half of 1982. As a result, overall OECD growth is expected to be negative for 1982 as a whole (-.2%), with uncertainty about recovery in 1983 (1.5% now forecast compared to 3.0% a year ago). Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1960-82

(percent)

	Industrial Countries	Developing Countries	
		Oil Exporters	Net Oil Importers
1960-72 (annual average)	4.9	6.7	5.7
1973	6.2	8.6	7.1
1974	0.6	7.0	5.6
1975	-0.6	4.0	3.6
1976	5.2	7.6	5.3
1977	3.7	5.2	5.3
1978	3.9	5.6	5.3
1979	3.2	8.5	3.2
1980	1.3	4.9	4.2
1981	1.2	-2.0	1.9
1982(preliminary estimates)	[-0.2]	[1.0]	[1.5]

Source: World Bank for 1960-81; OECD estimates for 1982.

10. The decline in the level of demand in the industrial countries has resulted in a slowdown in the growth of world trade. The 1982 GATT Annual Report shows trade stagnated in 1981. This trend is likely to continue through 1982. Imports by the OECD countries have declined in volume terms during the past three years. The most dramatic changes, however, have been in the OPEC countries, where export volumes have declined by an average of about 15% per year from 1980 to 1982. This reflects both a short-term drop in demand in industrial countries for oil as a result of the recession as well as the longer-term impact of higher prices and greater conservation measures. As unemployment has risen in developed countries, there has been growing pressure for protectionist actions often aimed at imports from developing countries. As a result of all these factors, the real growth of exports of the oil-importing developing countries is expected to be only about 3.5% in 1982, compared to an average of over 8% during 1978-80.

11. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured imports, and lower interest rates, these beneficial effects have been more than offset by steep declines in primary commodity prices. The Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 6% in 1980, and about 4% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. The cumulative change in their terms of trade between 1979 and 1982 amounts to an adverse shift of close to 25%.

12. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' imports have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three years running. Less severely affected have been the oil exporting countries, which have generally been able to maintain import growth despite falling export volume, due to improved terms of trade and greater access to capital markets. Even these countries began to feel the pinch in 1982, when the terms of trade began to move against them, and access to capital markets became more uncertain.

Table 2: Changes in Terms of Trade

	1979	1980	1981	1982	1983
Industrial Countries	-2.4	-7.8	-1.1	1.5	[0.5]
Developing Countries					
Oil Exporting	29.1	41.5	10.8	-1.0	[-2.0]
Non-Oil, total	-0.3	-6.2	-3.9	-3.5	[-1.0]
Low-Income	-1.8	-13.0	-10.8	-3.5	[-1.0]

Source: 1979-82 IMF (preliminary estimates); 1983 estimates based on OECD.

13. During the initial years of the recession, the developing countries, particularly the oil exporters and major exporters of manufactures, were able partially to offset adverse external events by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from about $350 billion in 1979 to about $530 billion in 1982.1/ Only one-third ($60 billion) of the increase came from official sources, the rest from private sources, chiefly commercial banks. At first, the commercial banks were keen to continue to relend OPEC surpluses to developing countries. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens, especially those that had borrowed on shorter maturities. This was particularly true of those countries such as the oil exporters, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened further in 1982 with concurrent problems being experienced by those

1/ World Bank/EPD data. OECD estimates a total of $626 billion, but covers countries not included in the EPD data base (e.g., Spain, Saudi Arabia, Iran, Iraq).

countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico).

14. The threat of a world financial crisis caused by a simultaneous default of the developing countries seems to be passing. Policy reforms, bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. Nevertheless, the aftermath of the "debt crisis" of 1982 is to make the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment. As a result, developing countries are being forced to reduce imports, investment, and the pace of overall development.1/

Country Experience: Macroeconomic Impact

15. There is considerable variation in the impact of the international situation on individual countries, but there are also broad similarities. Most countries have experienced, in varying degrees:

- cutbacks in investment plans and the slowdown of on-going projects because of shortages of domestic and external funds;
- import reductions because of limited borrowing opportunities and foreign exchange reserves;
- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;

1/ A more detailed analysis of the current world economic situation will be presented in the WDR 1983 and the IMF's World Economic Outlook for 1983, both of which are under preparation.

- falling or stagnant export earnings while debt service payments have been rising;
- shortages of funds to finance the operation and maintenance of existing facilities.

16. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from receiving concessional assistance. Borrowings from the IMF already total 380% of quota.

17. Some countries, of course, were facing severe problems even before the current recession (e.g. Argentina, Bolivia, Sudan, Zaire), largely because of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

18. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the government's budgetary deficit from an expected 2.4% to 5.3% of GDP for 1981-82. Despite new revenue measures enacted by the government in this fiscal year, and 5% domestic inflation, revenues were 18% lower than expected and

only marginally higher than the previous year. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23% higher than budgeted. As a result, there was a 12% reduction in development expenditures.

19. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

20. Many countries are taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external borrowings. These steps, however, fail to come to grips with the longer term structural issues in an economy highly dependent on petroleum exports and lacking alternative export or public revenue sources.

21. Latin American countries have been particulary affected by the reduction in access to new commercial credits. A number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF

assistance. While these programs vary somewhat among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to mean slower growth, or even no growth at all, in these countries in 1983.

22. In the case of Mexico, for instance, the Government has agreed to reduce its budgetary deficit from 16.5% of GDP in 1982 to 8.5% in 1983, to limit the growth of new foreign borrowing, and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure about $19 billion of existing debt. It is estimated that net new financing of $7 billion will be required in 1983 to ensure that the adjustment program is adequately financed. Of this amount $5 billion is being sought from the commercial banks and $2 billion from official sources. While these measures will help, Mexico still has major structural problems to confront.

23. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. In Pakistan, for instance, a number of steps have been taken since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irrigation system, while the investment program in irrigation has been reoriented toward projects

having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into the manufacturing and energy sectors, and energy prices have been made more realistic.

24. While these reforms have been supported by the Bank (a SAL) and the Fund (an EFF), much more needs to be done. In the past year, although the value of Pakistan's imports increased by 2%, the current account deficit increased by 54%, principally due to a sharp decline in agricultural export prices and slower growth in migrant remittances. In addition, net disbursements of official assistance have continued to decline from the level received in the mid-70s. Without further support by the Bank and Fund, it will be difficult for the government to carry out its structural adjustment program.

25. Almost all countries now face difficult decisions as they attempt to balance reductions in investment programs with imposition of new financing measures or greater external borrowing. There is always the danger that in choosing among these alternatives, countries will tend to eliminate government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a very adverse impact on long-term growth and social stability.

Country Experience: The Impact on Bank-Financed Projects

26. Bank assisted projects have not been immune from the pressures on governments' investment programs. A recent Bank report on project implementation notes that the impact of the worldwide recession on developing countries and their difficulties in making the necessary adjustments in their economies are reflected in increasing delays in the implementation of projects; these economic problems affect adversely the entire process of

policy decision making, as well as the ability of the governments to provide adequate managerial and financial resources. The report estimates that 18% of all Bank/IDA projects now suffer from major disbursement delays (compared to 9% two years ago), largely related to the inability of borrowers to provide adequate counterpart funds.

27. In Nigeria, for instance, counterpart funding for the Bauchi State Agricultural Development Project has been running at about half of the expected rate, and is barely adequate to cover recurrent costs; consequently most development work has ceased. Large amounts of earthmoving equipment previously purchased under the project are lying idle because of the lack of supplies and raw materials. Engineering staff are beginning to leave the project because of underemployment and low morale. While the Bank has taken steps to accelerate disbursements, potential benefits will continue to be foregone until adequate overall financing is assured.

28. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, some Bank-financed Industrial Development Banks have experienced reduced profitability and/or increasing loan arrears, as in projects in Korea, the Philippines, Colombia, and Kenya. Agricultural projects expected to produce goods for exports have been affected by declining commodity prices, e.g., projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been impeded by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds. External financing problems have had a direct impact on two steel mill projects in Brazil. High interest costs and reduced access to foreign capital markets, as well as weak internal demand for steel and lower than expected government contributions, have resulted in these projects coming to a halt.

III. Bank Response: An Action Program

Scope and Objectives

29. There is a compelling need for the Bank, and other official lenders, to make an extraordinary effort to assist member countries with policy advice and special financial assistance so as to maintain the maximum possible level of development activities and minimize the erosion of future growth prospects.

30. Because there is a reasonable expectation that the world economy should begin to recover within the next 12-24 months, and consequently the severity of the pressures on the developing countries may be attenuated, the proposed Action Program concentrates on results over the next two years. If recovery takes longer than anticipated the Program can be extended. The Program aims at increasing resource transfers to countries that are making a determined effort to implement appropriate adjustment policies. It entails measures to accelerate disbursements on existing loans, and shifts in the pattern of new commitments in favor of quick-yielding investments, which generally also involve fast-disbursing operations. Which measures are to be used would have to be determined on a country-specific basis, aimed not at alleviating country problems wherever they exist, but rather at countries which have an appropriate policy framework in place, and where reasonable conditionality can be incorporated. Our present assessment is that such changes can be accommodated in the Bank's planned commitment levels for FY1983 and with only modest changes in FY1984, since many countries are purposely constraining their investment programs, and the scope for further expansion at this time is limited. However, should further examination of individual country investment programs indicate a need for a revision of the planned

FY1984 commitment level, we will make the appropriate recommendations in the context of the FY1984 Budget and Operating Program.

31. The Bank's ongoing country economic and sector work puts the Bank in an excellent position to determine how it can best support governmental actions and to evaluate which borrowers can benefit from the various measures proposed. The many factors that are relevant to such evaluations include the appropriateness of the pricing framework to stimulate production and exports, the composition and scale of the investment program in terms of scale and composition, the government's efforts to contain budgetary and current account deficits, and the impact of budgetary changes on expenditures on human capital development and vulnerable income groups. An enhanced program of economic and sector work, as well as additional technical assistance, will be required to support effectively the implementation of the Program. The Bank also will need to take the initiative in urging other lenders to support these initiatives through parallel actions on their own, to maximize the effective impact of the proposed measures.

32. The Bank's Action Program involves temporary changes in certain Bank practices and procedures, as described below, and a shift in the type of project to meet the current economic situation in many of our borrowers. No aspect of the Action Program involves a lowering of Bank standards in terms of macro-economic and sectoral policy conditionality, creditworthiness or project related conditions. Rather, it is designed to assist borrowers in taking all appropriate actions to offset the adverse effect on development of the severe short-term liquidity problems caused by the current global economic environment.

Major Elements of the Program

33. Expanded Structural Adjustment Lending. Structural adjustment lending has been a valuable tool for helping borrowers design and implement major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick disbursing assistance. SALs have provided an excellent opportunity for enhanced policy dialogue on broad economic and sectoral policies. As economic conditions have worsened, a number of additional countries have plans to make broad policy changes and have explored the possibility of Bank support. Several additional countries are likely in the near future to adopt policy reforms that will satisfy established SAL performance criteria.

34. Until now Management has restricted the size of SALs to about 30% of the country's lending program, consistent with the Bank's primary emphasis on project lending. Under current circumstances, however, massive reductions in investment programs may, jusfifiably, leave little scope for new starts, while the scale of policy changes called for is larger than heretofore, and the need for speed in implementation is greater; it may be necessary therefore to alter this yardstick. Based on an analysis of the specific country circumstances, we propose that the size of SALs be proportionate to the scope and complexity of the adjustment program being undertaken, even if this involves a larger share of lending to the country in FY1983 and FY1984. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. Should it appear that the increased share of country lending programs will result in total SAL commitments exceeding 10% of the Bank's lending program, Management will, as previously indicated, bring the issue to the Board for consideration.

35. <u>Sector Adjustment Support</u>. There are many countries in which policy reforms focussed on specific sectors are more appropriate than comprehensive SAL programs. The objective of such operations are two-fold: to support necessary policy changes and administrative improvements and to provide the resources necessary to utilize existing productive capacity more efficiently. Three general categories of such loans, utilized in the past, involve export development, rehabilitation and modernization of existing plants, and provision of current agricultural inputs as part of a broad program to modify the incentive structure.

36. Loans of this type for export development have been approved in Jamaica and Zimbabwe. These loans help to finance a revolving fund which enables exporters to obtain raw materials, spare parts and minor equipment necessary for current production. The foreign exchange is repaid by the exporters in 6-12 months out of their export earnings. The objective of such loans is to ensure that the shortage of foreign exchange does not lead to underutilization of export capacity which would reduce foreign exchange earnings further. Such loans can, of course, be effective only if export competitiveness is maintained and if other incentives for export production are appropriate.

37. Lending for rehabilitation and modernization has been done in a number of countries. For instance, the Agricultural Rehabilitation Credit in the Sudan served to rehabilitate the cotton production system, Sudan's principal export. The credit provided necessary inputs for production and was based on a program of physical rehabilitation and agreement to improve the incentive structure, marketing and input distribution systems. Such operations need not, of course, be limited to agriculture. There is scope for such operations in industry, power, roads and transport where budgetary

pressures in recent years have reduced maintenance below levels needed by the equipment forcing use at below full capacity.

38. An example of lending for agricultural inputs, as part of a reform of sector policies, is the fertilizer import loan to Pakistan. In general, subsidies for agricultural inputs are a major drain on government budgets, displacing higher priority development investments. This is happening now in Nigeria, where many agricultural projects have come to a halt because the States can not finance their share -- because the bulk of State expenditures in agriculture are earmarked for the fertilizer subsidy. Action to reduce these subsidies, and phase them out gradually, is facilitated if adequate supplies of fertilizer to the farmer can be assured through increasing imports, or production, and by improving marketing and distribution systems.

39. Financing an Increased Share of Project Costs. The Bank generally finances the foreign exchange costs of projects. In the middle and higher income countries, exceptions to this rule are made only for projects where the foreign exchange component is very small. This is often the case in projects in agriculture or the social sectors. In those cases the Bank generally finances 35% of project costs -- a percentage thought necessary to ensure adequate Bank involvement in project design and implementation. In the lower income countries, the Bank also finances a portion of the local costs, taking account of the limited capacity in these countries to mobilize public resources. In the poorest countries, the Bank finances up to 90% of project costs. In all countries, the share of project costs financed by the Bank is affected by the availability of cofinancing. Consequently, the Bank may finance less than the full foreign exchange costs or may agree to total external financing covering up to 95% of project costs.

40. We propose to modify these criteria for cost sharing for the balance of FY1983 and FY1984 on a country- and project-specific basis, to help ensure the completion of high priority projects and programs as expeditiously as possible. Financing a larger share of project costs may involve fewer projects, which is precisely what is appropriate under present circumstances. In the present circumstances, borrowers are responding appropriately and with the full encouragement of the Bank, by reducing their investment programs, including, wherever appropriate, cancellation of Bank-financed projects. To obtain the benefits of the additional output as soon as possible, priority for available funds must be given to completing the high priority projects under implementation, but which have been delayed by the shortage of foreign exchange or budgetary resources. However, since disbursements under projects approved in FY1983 and FY1984 will be small, it is proposed to increase the Bank's share of project financing on existing as well as new projects. We would therefore plan:

- to reduce the scope of ongoing projects where appropriate while retaining the entire amount of Bank financing so that the Bank effectively would cover a higher percentage share of costs;
- to consider supplementary loans for ongoing projects to increase the Bank's share of financing, including interest during construction where appropriate. The amortization for such loans would be incorporated in the schedule of the original loan. Retroactive financing would be limited to eligible expenditures incurred in the last 12 months. Such loans would

include an agreed implementation plan to accelerate project completion;

- in exceptional cases, where a set of similar Bank-financed projects is affected by budgetary constraints, the problem would be addressed through a single supplementary loan, with provisions to ensure the appropriate allocation to individual projects;
- to restructure loans which finance broad programs in such areas as irrigation, water supply and feeder roads. By reducing the time period covered by the project we would increase the share of costs we would finance. This will require government commitment to complete the balance of the program -- already a standard feature of such loans; and
- to make increasing use of revolving funds. These funds, into which the Bank deposits in advance funds required for expenditure in 60 days, were not as commonly used in the past as today. They avoid tying up scarce foreign exchange resources for eligible expenditures while awaiting Bank reimbursement. They are replenished as disbursement requests are processed.

41. These, and similar measures, will provide additional resources quickly to countries and implementing agencies to help alleviate budgetary and foreign exchange bottlenecks. In addition, for new commitments in FY1983 and FY1984 we would:

- consider financing a larger share of incremental recurrent costs for the next two to three years, offset by a sharper reduction in the later years;

- emphasize maintenance and rehabilitation projects in view of their importance in helping to utilize existing investments;
- consider financing working capital requirements in loans to DFCs, or other financial intermediaries.

42. <u>Enhanced Policy Dialogue</u>. Increasing the pace of resource transfers will be supplemented by a further expansion of analytical support. The Bank will help governments, on request, review investment programs, macro-economic policies and trade and pricing policies, expand its assistance for debt management either through technical assistance credits or staff support, and assist in assessing changes in development priorities. Country economic and sector work has expanded in FY1982 and again in FY1983. We expect further growth will be required in the next year too.

43. <u>Coordination with Other Donors</u>. The Bank's Action Program will be of importance in individual countries but to achieve maximum impact will require the active participation of other donors. The Bank will therefore use its various consultation mechanisms with other international lending institutions and bilateral aid donors to urge consideration of similar measures. Meetings of aid consultative groups, and the consultation meetings with bilateral and regional organizations provide appropriate fora for discussions both on actions for individual countries and temporary changes in general lending practices.

<u>Implementation of the Action Program</u>

44. The basic objective of the Action Program is to accelerate the transfer of resources out of existing and new commitments to help those

countries seeking to deal effectively with current economic conditions to maintain their development momentum. The initial assessment suggests that in FY1983 any commitments for supplementary loans or expanded sectoral support activities can be accommodated within the approved Bank lending program because of the decline in new investment in numerous borrowing countries. For FY1984 the presently planned Bank commitment level of $11.9 billion may have to be increased modestly to meet the additional requirements of the Action Program even though there will be an offsetting decrease in demand for more standard operations. However, this will be reviewed carefully in the next few months and any revisions deemed necessary will be included in the FY1984 budget proposals.

45. Regrettably, IDA resources remain severely constrained and it is not likely that more than the planned SDR 3.1 million will be available. Even though IDA countries are not generally affected by absorptive capacity constraints at the present time, IDA will again not have the capacity to support adequately the investment programs in the low income countries nor to provide special financial support for programs of policy change. Moreover, the steps designed to increase cost sharing will be less significant in IDA countries since IDA already finances a very high share of total costs. IDA countries will nevertheless benefit substantially from the proposed program. With limited access to other resources, the shift in composition and more rapid disbursement should ease the difficulties these countries face in dealing with the present problems.

46. The changes proposed under the Action Program will have a modest impact in FY1983, since only five months remain, but will have a more significant effect in FY1984. It is not possible to be precise about the

disbursement impact of the Action Program in advance of consultations with governments and the estimates below are therefore tentative.

Projected IBRD/IDA Disbursements
($ million)

	FY83	FY84	FY85	Total
IBRD				
- Projected in FY83 Budget	7300	8450	9600	25350
- Special Action (tentative)	200	1300	800	2300
Total	7500	9750	10400	27650
IDA				
- Projected in FY83 Budget	2500	3000	3500	9000
- Special Action (tentative)	-	[150]	[100]	[250]
Total	2500	3150	3600	9250

[Discussion of the impact of the Action Program on incremental IBRD and IDA disbursements is to be elaborated further by Finance.]

Financial and Staffing Implications

47. IBRD. The major impact of the Action Program on the Bank's financial position would be on the borrowing program. Borrowings would have to be increased in order to finance the additional disbursements. The borrowing program over the FY83-FY85 period would not have to be increased by the full $2300 million, however, since a part of the additional disbursements in FY83-FY85 are accelerations of current plans and so would be offset by lower disbursements in later years. As a rough estimate, borrowings would need to be increased by about $2 billion over the FY83-85 period.

48. The phasing of this additional borrowing should take account of the fact that our borrowing program for FY83 is already well advanced. Moreover, since we anticipate some firming of US dollar interest rates in FY84, there is a case for concentrating the additional borrowings in the early part of the FY83-FY85 period. The phasing shown below would be consistent with maintain

ing the Bank's liquid holdings at or above 40% of the following three years' net cash requirements, as provided under our current liquidity policy.

Projected IBRD Gross Borrowings
($ million)

	FY83	FY84	FY85	Total
Projected in FY83 Budget	9000	9800	11400	30200
Special Action (tentative)	800	800	400	2000
	9800	10600	11800	32200
Memo Item:				
% of Next 3 Yrs. Cash Requirements	[41%]	40%	40%	

49. To complete the increased borrowings in FY83 at minimal cost, it may be desirable to raise the present $1.5 billion ceiling on short-term borrowing to [$1.8 or $2.0] billion. For FY84 the composition of an enlarged borrowing program - and hence its average cost - would depend on the decisions of the authorities in various capital markets regarding the degree of Bank access to their markets for new issues as well as for swap transactions.1/

50. The average cost of the additional borrowing would be likely to go up slightly in any event. Much of the incremental borrowing would be done in US dollars or in other currencies with a nominal cost higher than the average cost of the current program. The cost of additional borrowing in FY83 can be estimated at around 10%, compared with the presently projected cost of around 9%.

1/ [An increase in short-term borrowing in FY83 and FY84 could once again raise the question of whether - or to what extent - it is appropriate for the Bank to finance itself with short-term borrowings. The liquidity aspects of this question are to be taken up in a policy paper scheduled for Board review in April. It may be noted that any additional liquidity risk could be avoided if the Bank were to borrow at 5- to 10-year maturities at variable interest rates. Borrowing at variable rates would, however, raise issues of principle for at least one member country and would be more costly than the Discount Note program.]

51. Since the Action Program involves only a modest net increase in commitments, it would have no significant implications for IBRD's capital requirements. The Bank's loans disbursed and outstanding are currently projected to exceed its capital and reserves in FY92 if IBRD commitments continue to grow as presently planned in future years.1/ Since loans made in the years up to and including FY84 would be fully disbursed by FY92 if normal disbursement patterns prevailed, accelerating disbursements on these commitments will not increase the amount disbursed and outstanding in FY92 and so will not alter the date when additional capital is required under the Articles.

52. Net income could be lower in FY84 and FY85 as a result of the Action Program; the difference could be on the order of [$20 million] in FY84 and perhaps twice that level in FY85. These estimates are quite sensitive to the detailed composition (by currency and maturity) of the additional borrowings. Because of the higher nominal cost of borrowing, the Bank's pool-based lending rate would also be higher by a few basis points in FY84.

53. IDA. In the present circumstances, it will be difficult for IDA to finance even the relatively modest volume of accelerated disbursements implied by the Action Program. IDA disbursements are financed through calls on donors,2/ and donors already face severe problems meeting existing calls because of current budget constraints. In these circumstances, any action which leads to additional budget expenditure in the near term is bound to be controversial and runs the risk of adversely affecting the negotiation for the

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1/ Article III, Section 3 of the Bank's Articles requires that loans (and guarantees) not be increased beyond the total of subscribed capital and reserves.

2/ Specifically, IDA encashes the notes which are deposited by donors as part of each IDA Replenishment.

next replenishment of IDA's resources. IDA's light cash position does not permit it to finance the disbursements out of funds already on hand. However, there are other ways in which the disbursements might be financed, including a limited waiver of the provisions governing the use of previous Bank income allocations to IDA. Such a waiver might permit the Association to draw on prior transfers to meet increased disbursements. This would require action by the Executive Directors to amend the earlier resolutions governing Bank transfers. A transfer of the Bank's FY83 income allocation to IDA immediately after the Bank makes the allocation could also provide additional disbursement capacity in FY84. The precise implications of such steps for the Bank will of course depend upon the Bank's income prospects for FY84 and subsequent years.

54. Staffing Implications. Since the Action Program does not envisage any increase in commitment levels for FY83 and a modest increase in FY84, there should be little or no increase in staff resources required for lending work. With respect to country economic and sector work (CESW), our preliminary assessment is that the needed staff to support the Action Program can be accommodated within an overall increase of 5-6% in CESW resources. The Action Program could, however, increase the budgetary requirements of the Treasurer's and Controller's Departments where some increase in staff may be needed to carry out an expanded borrowing program and to handle accelerated disbursements.

IV. Conclusions and Recommendations

55. The proposed Action Program is another step by the Bank to assist its members in dealing with an extraordinarily severe economic environment which has persisted very much longer than anticipated. Like the other steps -- the original SAL program, expanded recurrent cost financing, more flexible use of retroactive financing, new cofinancing techniques -- the Action Program by itself will not solve the problems of our members. No single institution has the capacity to do that. But taken together with the other measures taken by us, and the responses of bilateral donors and other international organizations, the Action Program will make an important contribution. Of course, the increased resource transfers are small compared with the external financing requirements of the developing countries. But that is not the proper yardstick. In relation to the individual countries which seek support for an effective program of policy change in an inhospitable environment, we hope the Action Program will make a highly significant contribution in removing financial bottlenecks to project completion, in maintaining existing plant and infrastructure and in helping to ensure a proper balance between meeting urgent needs and continuing to invest in the future.

56. And if what we are proposing now is insufficient -- either in volume or in terms of flexibility -- we will be obliged to consider further steps. The Bank must do whatever it can, consistent with the need for prudent financial management and with its high standards of quality, to help countries continue their efforts at growth and the reduction of poverty and to minimize the adverse impact of today's conditions on future generations.

57. We recommend that in order to help meet the acceleration of IDA disbursements the Executive Directors approve the use of [$_______ million] of prior Bank transfers to IDA as well as the prospective transfer of FY83 income to IDA immediately after the allocation is made. We will proceed with the Action Program and provide the Executive Directors an initial assessment at the time of the FY1984 budget.

Mr. Norman Hicks January 18, 1983

E. Bevan Waide

ERS Paper - Increasing Fast-Dispersing (Sic) Lending

Since we are not able to use the paper, I think we owe an explanation to the authors. I would be grateful if you could draft a memo from myself to Helen Hughes, gently but firmly setting out the reasons why we have difficulties. I plan also to send copies of the memo to Messrs. Stern and Husain who may wish to speak to Mrs. Krueger, who was one of the authors. I attach my marked-up copy.

It would be helpful if we could say we have taken one or two ideas: how about paras 19, 22 and 23 for this? We could also say, to ease the blow, that the general subject of measuring policy performance is one on which CPD is working further (see attachment), and we will be in touch with ERS to seek their assistance.

Attachments

cc: Mr. Chernick
Mr. Kavalsky
Mr. Edelman

EBWaide:eg

FORM NO. 75
(9-78)

THE WORLD BANK

(4)

ROUTING SLIP	DATE: 11/I/83

NAME	ROOM NO.
Mr. Waide	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

FROM: Helen Hughes	ROOM NO.: I7-100	EXTENSION: 61811

INCREASING FAST-DISPERSING LENDING

A. Summary

1. There are a number of countries which have undertaken many of the appropriate adjustment measures in response to the world economic difficulties and structural domestic problems they have experienced over the past five years. However, they are experiencing great difficulties in maintaining these policies because of the current worldwide recession and the commercial banks' reluctance to extend credit to developing countries without regard to their domestic policies. It is proposed that, for countries that have sufficiently altered their domestic economic policies and structure, the Bank develop means of supporting their faltering investment programs. Countries' eligibility for such support would be determined by criteria intended to distinguish the extent to which current economic difficulties are attributable to the international situation or other temporary circumstances.

2. Since 1979, developing countries' economies have been buffetted by the international economy in a number of ways. This may be divided into two broad categories -- external and internal. External shocks are those largely outside the sphere of influence of individual countries which may be viewed as price takers[1/] while internal shocks include those resulting from socio-political situations, major weather effects, and autonomous changes in domestic economic policy. No doubt one may identify a wide plethora of such phenomena for any country but with varying degree of importance. The principal ones identified here are classified under external and internal headings. Internal shocks are included but for the most part fall outside the purview of this paper.

1. Internal Shocks

a. Major negative, coffee in Brazil, and positive, agriculture in India, weather effects.

b. Dramatic political change such as in Turkey in the mid-seventies and Korea more recently.

c. Autonomous policy shifts such as occurred with change of governments in Colombia in 1978 and Brazil in 1979 as the Figueiredo Government tilted more towards export oriented policy.

1/ An exception here is Brazil and Colombia for coffee.

2. External shocks

a. Change in oil price - doubling in 1979.

b. Commodity boom in late seventies, most notably coffee and sugar.

c. Surge in interest rates in late seventies with unexpected debt-servicing burden on many countries.

d. Slowdown in industrial activity in industrialized countries in the late seventies with a concomitant depressing effect on ex post prospects for LDCs. This has unexpectedly reduced the volume of nontraditional exports while simultaneously depressing the terms of trade.

B. Need for Adjustment

3. For the catalogue of shocks listed, the need for adjustment should best be established at the individual country level but do have a number of common features.

o **Internal**

4. First the internal shocks are considered. Major negative weather effects constitute a one time income loss. This may be compensated for financially by a number of schemes but to the extent that the income loss is not recoverable the economy needs adjustment. Although often treated similarly by theoreticians, a good weather impact often works its way through the economy before Government and the appropriate authorities react. This is typically manifested in higher consumption expenditure. If this type of shock is anticipated at regular intervals then a national or international style of stabiliser fund may be needed.

5. Political changes do not of themselves need economic adjustment. However if they are accompanied by income loss or changes in non-economic objectives (e.g. increased concern for security) then adjustment is needed.

6. Autonomous policy shifts may themselves trigger economic changes which in turn will need adjustment. However this again needs to be considered at the specific case level.

7. For the most part internal shocks are not considered further except to the extent that some induce effects similar to those produced by external shocks. These can then be treated in that framework.

o **External**

8. Change in oil prices induced a loss of income in oil importers and vice versa. This requires adjustment both to the income loss and the new relative prices otherwise balance of payments, government deficits for example could become untenable.

9. Commodity boom resulted in dramatic increases in foreign exchange reserves. Without adjustment the level of reserves would exceed what prudent policy would suggest and the country would forego some growth possibilities. For a dramatic fall in commodity prices reserves levels may need to be supplemented by external borrowing.

10. Interest rate increases for borrowers tend to make it more desirable to cut back on new investments needs until rates are more favorable. Thus some investment gestation periods might be extended while the less promising (on a return to capital basis) might be postponed. If these adjustments were not made then one could be left with unviable (financially) investment projects and possibly also a liquidity problem.

11. Slowdown in industrial activity poses bleaker prospects for exports. If a country fails to adjust, then they will be left with excessive stocks.

12. Rising protectionism basically means that an exporter is facing lower prices for its exports if it is to continue competing. If it does not adjust, then its share in the corresponding market will fall.

C. Adjustment Needs

13. Some of these factors -- most notably the oil price increase of 1979 -- require changes in domestic policies in the affected countries in order to permit the appropriate long-term adjustments. Others, such as the current recession, are clearly temporary and do not require permanent policy changes.

14. Some developing countries have undertaken the necessary and painful domestic economic policy shifts in order to adapt to the changing international economy. Despite their efforts, the current worldwide recession is preventing the resumption of growth that they would otherwise have experienced. In a few cases, difficulties have been compounded because of unusual domestic circumstances, such as poor crops due to weather. Foreign exchange earnings are failing to rise or even declining, and imports are being cut back to honor debt servicing obligations while maintaining balance of payments equilibrium. As a consequence, these countries are being forced to cut back domestic investment programs and hence reduce growth prospects despite the fact that their underlying economic policies are essentially sound and that it is the current recession that underlies their difficulties. Although

countries which have not sufficiently adjusted their domestic policies are also experiencing grave difficulties, those problems would still be present in significant degree (although to a lesser extent) had abnormal circumstances not affected their situation.

15. As unfortunate as this poor performance is in itself in the countries which have undertaken adjustment measures is in itself, the situation is creating strong political pressures in the affected countries for a reversal of policies. When painful domestic policies have been adopted, and the domestic economic situation fails to show marked improvement, opposition to those measures rapidly intensifies. In the current environment, the risk is not only that growth will temporarily be slow, but that the policies so painfully adopted will be reversed before they have begun to pay off.

16. In normal times, many of these countries would have been able to tide over the temporary shortfall in foreign exchange earnings by resorting to the private international capital market. Because the difficulties they are experiencing are temporary, that additional borrowing would have realized a relatively high rate of return and hence have been economically sound.

17. Yet, in the current situation, virtually all developing countries -- those with relatively sound long-run prospects as well as those that have failed to undertake the necessary adjustment measures -- are experiencing difficulty in borrowing in commercial markets: the commercial banks, apparently reacting to the situations in some developing countries, have become exceptionally cautious with respect to all of them.

D. Role of the Bank

18. In this context, Bank-financed projects as well as other investments are being cut back for lack of necessary foreign exchange. This is happening both in countries where appropriate structural adjustment measures have been taken and in countries where they have not been.

19. The options open to the Bank to assist in this situation are limited. It cannot extend credit to offset the facilities that might have been available from commercial banks. Nonetheless, the Bank could make a difference if it could disperse more rapidly or extend fast-dispersing credits that would permit continuation of some investment projects in countries which have undertaken satisfactory adjustment. To do so would naturally require careful assessment of the adjustment programs undertaken in individual countries, and the extent to which the policies put in place would have been adequate in a normal international environment.

20. For these reasons, it is proposed that the Bank temporarily relax its lending practices in cases where the appropriate adjustment

measures have been undertaken, in order to permit countries to maintain Bank-financed investment projects that are otherwise being curtailed. (This paragraph to be expanded by ES and staff).

21. To do this requires a means of discriminating between those countries which have undertaken the necessary adjustments to a satisfactory extent and those which have not. To be sure, no country's economic policies are beyond reproach, but there are significant differences in the extent to which countries have tried to adjust and have appropriate economic policies. In many cases, it seems evident to all observers that, had the international economy not experienced the current recession with the maintenance of high real interest rates and/or had the international capital market not cut back indiscriminately on new lending, countries' policy changes would have been sufficient to permit them to maintain an adequate rate of investment consistent with balance of payments equilibrium. In others, however, it must be recognized that domestic economic policies are not realistic, and that difficulties would be experienced even in a more healthy international economic environment.

22. Rather than rely entirely on judgment to determine eligibility for supplemental financing, some indicators of the degree to which policies are realistic and appropriate are used. Ideally these would include: the appropriateness of the level of the real exchange rate; the extent to which measures have been taken to adjust the production structure to generate additional export earnings to finance imports; the behavior of the government budget and monetary policy; the realism of policies affecting labor and capital costs of individual enterprises; and the extent to which major distortions in the domestic economy (such as agricultural pricing policy and pricing policies of parastatals) are either relatively minor or are being corrected.

23. These factors are the ones that have entered most prominently into discussions of structural adjustment in policy dialogues with individual countries. They are also the ones that have been most frequently identified as crucial for countries in their adjustment efforts. Inappropriate policies in these respects have, when sufficiently unrealistic, been shown repeatedly to reduce prospects for sound economic growth, even when the international environment is favorable. Thus, countries which have failed to adopt realistic policies with respect to these factors would in all likelihood have experienced unsatisfactory growth even if the international economy was more healthy.

E. Preliminary Analysis

24. A sample of 47 countries are chosen. These should not be considered exclusive candidates. For these an attempt is made to represent policies and performance over the period 1978-1981. From these a classification of countries is developed which in general terms might be considered strong, average or weak candidates. It must be

emphasized that this approach is limited in many ways, both in terms of the list of countries indicators chosen and tentative rankings developed. Inevitably one must look at the individual country and examine the policy and performance there in the light of that country's particular economic, social and political milieu.

F. The Sample Countries

25. The 46 countries are listed in Table 1. They are broadly representative of three classes of developing countries; low income, middle income non-oil economies, and oil exporting economies. For each of these countries we summarize selected economic indicators. These indicate to some degree the effect of policy on exports, imports, government, debt and domestic resource mobilization over the period 1978-1981.

26. Ideally one would like to isolate specific policies and the response to them. This is especially important when the response time may vary and inevitably it is extremely difficult to disentangle the contribution of various elements of policy to the overall response. In this work this issue is finessed to some extent by focussing on performance rather than instruments.

27. The indicators chosen are listed in Table 2. For the sample panel these indicators were calculated for each of the years,[1/] 1978, 1979, 1980, 1981, subject to data availability.

28. Ideally one would also like measures of real wages, production costs, relative price shifts to clarify the pattern of adjustment. Suitable data is not at the present writing.[2/]

G. Discussion of Indicators

29. Each country is given a rating for each indicator.

- +1 positive - good
- 0 average
- -1 negative - poor

N.B. The indicators are to be interpreted in terms of the overall objective of the study, i.e., to identify candidates for supplemental financing.

30. The ratings are assessed vis-a-vis the country classification. There are three classifications as noted earlier:

1/ Except 2 AGR, for which a period 1970 to 1980 is chosen.

2/ This may be collected in the next few weeks.

a. Middle income non-oil
b. Low income non-oil
c. Oil exporting

31. The overall rating at this stage seeks to identify outliers primarily so that for a number of indicators, many countries are given a 0 rating. Preliminary results are given in Table 3. Note that the performance indicators indicate change from 1978. For many indicators data was not available. This may change the final ratings.

Table 1: THE SAMPLE PANEL

Country	Population (millions)	GDP 1980 US$ mil.	Average Annual Growth Rate 1970-1980 GDP	Agriculture
All developing countries (Sample Countries Only)				
Non-oil economies				
Middle income non-oil		733,439		
East Asia and Pacific				
KOREA	38.2	58,246	9.5	3.2
PNG	3.0	2,583	2.3	-
PHILIPPINES	49.0	35,485	6.3	4.9
THAILAND	47.0	33,448	7.2	4.7
Middle East and No. Africa		23,276		
JORDAN	3.2	2,724	6.8 a/	4.1 a/
MOROCCO	20.2	17,940	5.6	0.8
YEMEN, A.R.	7.0	2,612	9.2	3.7
Africa, South of Sahara		35,686		
CAMEROON	8.4	5,954	5.6	3.8
IVORY COAST	8.3	10,490	6.7	3.4
KENYA	15.9	6,992	6.5	5.4
SENEGAL	5.7	2,848	2.5	3.7
ZAMBIA	5.8	3,787	0.7	1.8
ZIMBABWE	7.4	5,615	1.6	-0.5
Southern Europe		140,388		
CYPRUS	62.0	2,135	5.8	1.0
PORTUGAL	9.8	24,076	4.6	-0.9
TURKEY	44.9	56,886	5.9	3.4
YUGOSLAVIA	22.3	57,291	5.8	2.8
South America and Caribbean		404,327		
DOMINICAN REP.	5.4	7,016	6.6	3.1
ARGENTINA	27.7	79,745	2.2	2.6
BRAZIL	118.7	248,592	8.4	4.9
CHILE	11.1	27,462	2.4	2.3
COLOMBIA	26.7	33,508	5.9	4.9
URUGUAY	2.9	8,004	3.5	0.2
JAMAICA	2.2	1,848	-1.1	0.7
Low Income non-oil		509,815		
Low Income Asia		481,106		
CHINA	976.7	282,993	5.8	3.2
INDIA	673.2	159,233	3.6	1.9
Other Low Income Asia		38,880		
BANGLADESH	88.5	11,142	3.9	2.2
PAKISTAN	82.2	23,712	4.7	2.3
SRI LANKA	14.7	4,026	4.1	2.8
Low Income Africa		28,709		
ETHIOPIA	31.1	4,088	2.0	0.7
GHANA	11.7	3,718	-0.1	-1.2
MADAGASCAR	8.7	3,265	0.3	0.1
SUDAN	18.7	6,760	4.4	2.6
TANZANIA	18.7	4,930	4.9	4.9
ZAIRE	28.3	5,948	0.1	1.2
Oil Exporting Economies		475,229		
INDONESIA	146.6	69,802	7.6	3.8
MALAYSIA	13.9	23,836	7.8	5.1
SYRIA	9.0	12,823	10.0	8.2
North Africa		71,479		
ALGERIA	18.9	39,875	7.0	3.1
EGYPT	39.8	22,900	7.4	2.7
TUNISIA	6.4	8,704	7.5	4.9
Africa, South of Sahara		82,011		
NIGERIA	84.7	80,262	6.5	0.8
CONGO, P.R.	1.6	1,749	3.1	1.7
Latin America and Caribbean		215,278		
ECUADOR	8.0	9,709	8.8	2.4
MEXICO	69.8	186,331	5.2	2.3
PERU	17.4	19,238	3.0	-

a/ 1971-1980

Table 2: INDICATORS

1.	GDGR	GDP growth rate, constant 1980 prices, US$
2.	AGR	Agriculture sector growth rate, constant 1980 US$
3.	XGR	Exports of goods and NFS growth rate, constant 1980 US$
4.	MGR	Imports of goods and NFS growth rate, constant 1980 US$
5.	X/GDP	Exports of goods and NFS as share of GDP
6.	M/GDP	Imports of goods and NFS as share of GDP
7.	NCT/GDP	Net current transfers/GDP
8.	WR/GDP	Workers remittances/GDP
9.	AB/GDP	Absorbtion (C+I+G)/GDP
10.	GDI/GDP	Gross domestic investment/GDP
11.	KAP/CUR	Government capital/current expenditure
12.	GDEF/GEX	Government deficit/government expenditure
13.	MD/GDP	Demand, time and savings deposits (lines 24 and 25 of IFS)/GDP
14.	DSR	Debt service ratio: (interest + amortization on MLT)/exports of goods and non-factor services
15.	PRIV/OFF	Private guaranteed ratio of commitments to official commitments
16.	PMAT	Maturity of assets of private banks, in the group of "10" vis-a-vis LDC's: ratio of those one year or less to total
17.	(RES/M)	International reserves plus gold as months of imports of goods and services

NOTE: in current prices unless indicated.

Table 3: PRELIMINARY RATING OF COUNTRIES

Positive Indicates Good Candidates For Lending

-6	-5	-4	-3	-2	-1	0	1	2	3	4	5
CHILE		GHANA	MADAG	SRI-L	CHINA	INDIA	THAI	SUDAN	PAKIS.	BAN.-DESH	MEXICO
			SYRIA	YEMEN	ETHIOP.	TANZANIA	IV-COAST	MALAYSIA	JORDAN	TUNISIA	KOREA
			ALGERIA	ZIMB	INDON.	ZAIRE	DOM.REP	PHIL.	CAMER.	SENEG.	
			PNG	PORTUGAL	NIGERIA	EGYPT	JAMAICA	CYPRUS	TURKEY		
				ARGEN	CONGO P.R.	EQUADOR		YUGOS.	BRASIL		
					PERU	MOR.					
					ZAMBIA	KENYA					
					URUGUAY	COLUM					

S.E. Chernick

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A WORLD BANK ACTION PROGRAM, 1983-84

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Country Policy Department
January 15, 1983

A WORLD BANK ACTION PROGRAM - 1983-84

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January 14, 1983

A WORLD BANK ACTION PROGRAM 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence on which to base hopes for an early recovery. Reflecting the growing interdependence of the world economy, the industrial countries of Europe and North America, the newly industrialized developing countries, the lower-income countries of Africa and Asia and the major oil-exporting nations have, with few exceptions, been hard hit by the recession. The Bank's borrowers are almost all experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and also in foreign and domestic savings. The adjustment process following the shocks of the early 1970's was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows. This time there is no growth in aid, and commercial capital, when available, entails record high real interest costs. Many Bank borrowers are being forced to reduce both public and private recurrent and capital expenditure, disrupt investment programs, delay the completion of high priority development projects and reduce the level of maintenance of infrastructure. Bank financed projects have been directly affected by these pressures.

2. What can the Bank do in the face of this exceptional loss of development momentum? While the IMF and the commercial banks are the major sources of financial support to meet short-term needs, the pressing development

requirements of borrowing countries argue strongly for an extraordinary effo by the World Bank. A World Bank Action Program is proposed for the next 24 months to assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development despite adverse external circumstances. Without lowering standards or weakening portfolio quality, the Bank proposes:

(a) to accelerate disbursements under existing and planned loan commitments, in order to maintain project momentum;

(b) to substitute high priority and fast disbursing operations that support structural adjustment and policy change and the maintenance of crucial infrastructure for lower priority and slower disbursing operations;

(c) to provide more advice on the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other lenders make similar efforts.

3. This paper presents a diagnosis of the current world economic situation and its impact, and then presents the Action Program we propose to undertake and the implications this program has for the Bank's finances and staffing. 1/

1/ IFC has also considered how it can help in this situation. In addition the same constraints that IBRD/IDA financing faces, the IFC has two more: its disbursements are very small relative to country needs, and i can only disburse along with private investment which, in the present situation, has been drastically reduced. Nevertheless, the Corporation seeking to promote export oriented and/or quick disbursing projects, and is taking steps to help companies in its portfolio that are in difficult

II. The Current World Economic Situation and Problems to be Met

A. The World Economic Situation

4. The world economic recession is exceptional in its severity and its duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth and sustained high interest rates in the industrialized countries have resulted in much reduced growth in the developing countries.

5. During the 1974-75 recession, a large amount of private capital was quickly recycled through the banking system to the oil importing developing countries, and official capital flows were increased. Thus, these countries were largely able to maintain their pace of development until OECD growth recovered. Growth in the developed countries recovered by 1976, and current account deficits of the oil importing developing countries declined from a peak of about 5% of collective GNP, to about 2%, roughly equal to average pre-1973 levels. Rapid growth in the oil exporting countries helped maintain the demand for exports from developing countries. Sustained growth in the developing countries helped advance the process of adjustment to higher energy prices.

6. Since 1980, current account deficits have averaged about 5% of GNP for the oil importing developing countries as a group, and began to be reduced only slightly in 1982. Their current account deficits are likely to be significantly smaller in 1983 as growth slows down further. This reflects not a successful adjustment process, but reduced access to commercial credit by developing countries made less creditworthy by a large accumulation of debt and a stagnant world economy. Unlike the post 1974-75 recovery period, there

has been no increase in official assistance, and the oil exporting countries have also experienced significant problems causing them to reduce growth and their demand for imports. Moreover, the late-1979 and early-1980 oil price increases added to already existing inflationary pressures in many developed countries. In an attempt to control this inflation, some of the larger countries adopted deflationary policies which slowed growth and raised interest rates. The present recession has thus been unusual in that record high real interest rates have added to the adjustment burden of the developing countries. Up to 1978 most developing countries' debt was contracted at fixed interest rates, so increasing inflation lowered their real debt burden; the move to variable interest rate borrowing eliminated this windfall gain.

7. The task of restoring growth in the OECD countries now appears to be more difficult than initially appreciated. Although OECD growth rates fell
3.4 1.2
from 3.2% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. Current OECD forecasts, however, have been revised downwards and show only a weak recovery in the second half of 1982. As a result, overall OECD growth is expected to be
IMF → (-0.3%)
negative for 1982 as a whole (-.2%), with uncertainty about recovery in 1983
↓
1.3 (1.5% now forecast compared to 3.0% a year ago). Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1973-82

(percent)

	Industrial Countries	IMF	Developing Countries: Oil Exporters		Developing Countries: Net Oil Importers	
1960-72 (annual average) '63-'72	4.9	4.7	6.7	5.4	5.7	4.7
1973	6.2	6.2	8.6	6.4	7.1	4.1
1974	0.6	0.5	7.0	7.7	5.6	5.5
1975	-0.6	-0.6	4.0	6.1	3.6	3.8
1976	5.2	5.0	7.6	8.0	5.3	5.0
1977	3.7	4.0	5.2	4.9	5.3	5.0
1978	3.9	4.1	5.6	6.6	5.3	5.3
1979	3.2	3.4	8.5	5.1	3.2	4.4
1980	1.3	1.2	4.9	4.9	4.2	2.8
1981	1.2	1.2	-2.0	4.4	1.9	3.0
1982 (preliminary estimates)	[-0.2]	0.3	[1.0]	2.6	[1.5]	2.1
1983 (estimate)		1.3		3.5		3.9

Source: World Bank for 1960-81; OECD estimates for 1982.

8. The decline in the level of demand in the industrial countries has resulted in a slowdown in the growth of world trade. The 1982 GATT Annual Report shows an unchanged volume of trade during 1981. This trend is likely to continue through 1982. Imports by the OECD countries have declined in volume terms during the past three years. The most dramatic changes, however, have been in the OPEC countries, where export volumes have declined by an average of about 15% per year from 1980 to 1982. This reflects both a short-term drop in demand in industrial countries as a result of the recession as well as the longer-term impact of higher prices and greater conservation measures. As unemployment has risen in developed countries to 8% in 1982 1/, there has been growing pressure for protectionist actions often aimed at imports from developing countries. As a result, the real growth of exports of the oil-importing developing countries is expected to be only about 2% 3.5% in 1982, and perhaps even lower in 1983. 6.5% in 1983.

1/ As estimated by the IMF in World Economic Outlook, 1983.

9. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured imports, and lower interest rates, these beneficial effects have been more than offset by steep declines in primary commodity prices. The Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 6% in 1980, and about 4% ~~each~~ in each of the years 1981 and 1982 (see Table 2).

10. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' imports have grown at little more than 2% per year during the past three years. The most seriously affected have been the low-income countries, which have had to reduce import levels for three years running. Less severely affected have been the oil exporting countries, which have generally been able to maintain import growth despite falling export volume, due to improved terms of trade ~~between~~ in 1979 and 1980, ~~what~~? and greater access to capital markets. Even these countries began to feel the pinch in ~~1982~~ 1981, when the terms of trade began to move against them, and access to capital markets became more uncertain.

according to the IMF

Table 2: Changes in Terms of Trade

	1979	1980	1981	1982 IMF	1983
Industrial Countries	-2.4	-7.8	-1.1	1.5	[0.5]
Developing Countries					
Oil Exporting	29.1	41.5	10.8	-1.0	[-2.0]
Non-Oil	-0.3	-6.2	-3.9	-3.5	[-2.0] --
Low-Income 1/	-2.7	-8.3	-2.9	-0.5	[-2.0]
" " IMF (WEO 83)	-1.8	-13.0	-10.8	-3.5	--

Source: 1979-82 IMF (preliminary estimates); 1983 estimates based on OECD.

1/ Excludes India and China.

11. During the initial years of the recession, the developing countries, particularly the oil exporters and newly industrialized countries (NICs), were able partially to offset adverse external events by increased borrowing abroad. As a result, total (short- and long-term) debt outstanding of non-oil developing countries rose from about $400 $350 billion in 1979 to about $600 $530 billion in 1982.1/ Only ~~one-third~~ 30 % ($60 billion) of the increase came from official sources, the rest from private sources, chiefly commercial banks. In the early years, the commercial banks were keen to continue to recycle OPEC surpluses. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens, especially those that had borrowed on shorter maturities. This was particularly true of the oil exporters and NICs, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened further in 1982 with concurrent problems being experienced

1/ World Bank/EPD data. OECD estimates a total of $626 billion, but covers countries not included in the EPD data base (e.g., Spain, Saudi Arabia, Iran, Iraq).

by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico).

12. The threat of a world financial crisis caused by a simultaneous default of the developing countries and a collapse of the major money center banks seems to be passing. Policy reforms, bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. Nevertheless, the aftermath of the "debt crisis" of 1982 is to make the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment. As a result, developing countries are being forced to reduce imports, investment, and the pace of overall development.[1/]

B. Country Experience: Macroeconomic Impact

13. There is considerable variation in the impact of the international situation on individual countries, but there are also broad similarities. Most countries have experienced, in varying degrees:

- cutbacks in investment plans and the slowdown of on-going projects because of shortages of domestic and external funds;
- import reductions because of limited borrowing opportunities and foreign exchange reserves;
- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;

1/ A more detailed analysis of the current world economic situation will be presented in the WDR 1983 and the IMF's World Economic Outlook for 1983, both of which are under preparation.

- falling or stagnant export earnings while debt service payments have been rising;
- shortages of funds to finance the operation and maintenance of existing facilities.

14. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from receiving concessional assistance. Borrowings from the IMF already total 380% of quota.

15. Some countries, of course, were facing severe problems even before the current recession (e.g. Argentina, Bolivia, Sudan, Zaire), largely because of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

16. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the government's budgetary deficit from an expected 2.4% to 5.3% of GDP for 1981-82. Despite new revenue measures enacted by the government in this fiscal year, and 5% domestic inflation, revenues were 18% lower than expected and

only marginally higher than the previous year. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23% higher than budgeted. As a result, there was a 12% reduction in development expenditures.

17. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

18. Many countries are taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external borrowings. These steps, however, fail to come to grips with the longer term structural issues in an economy highly dependent on petroleum exports and lacking alternative export or public revenue sources.

19. Latin American countries have been particulary affected by the reduction in access to new commercial credits. A number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF

assistance. While these programs vary somewhat among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to mean slower growth, or even no growth at all, in these countries in 1983.

20. In the case of Mexico, for instance, the Government has agreed to reduce its budgetary deficit from 16.5% of GDP in 1982 to 8.5% in 1983, to limit the growth of new foreign borrowing, and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure about $19 billion of existing debt. It is estimated that net new financing of $7 billion will be required in 1983 to ensure that the adjustment program is adequately financed. Of this amount $5 billion is being sought from the commercial banks and $2 billion from official sources. While these measures will help, Mexico still has major structural problems to confront.

21. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. In Pakistan, for instance, a number of steps have been taken since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irritation system, while the investment program in irrigation has been reoriented toward projects

having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into the manufacturing and energy sectors, and energy prices have been made more realistic.

22. While these reforms have been supported by the Bank (a SAL) and the Fund (an EFF), much more needs to be done. In the past year, although the value of Pakistan's imports increased by 2%, the current account deficit increased by 54%, principally due to a sharp decline in agricultural export prices and slower growth in migrant remittances. In addition, net disbursements of official assistance have continued to decline over the level received in the mid-70s. Without further support by the Bank and Fund, it will be difficult for the government to carry out its structural adjustment program.

23. Almost all countries now face difficult decisions as they attempt to trade-off reductions in investment programs with imposition of new financing measures or greater external borrowing. There is always the danger that in choosing among these alternatives, countries will tend to eliminate government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a very adverse impact on long-term growth and social stability.

C. Country Experience: The Impact on Bank-Financed Projects

24. Bank assisted projects have not been immune from the pressures on governments' investment programs. A recent Bank report on project implementation 1/ notes that the impact of the worldwide recession on

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1/ Draft FY82 Report on Project Implementation and Supervision, (12/28/82).

developing countries and their difficulties in making the necessary adjustments in their economies are reflected in increasing delays in the implementation of projects; these economic problems affect adversely the entire process of policy decision making, as well as the ability of the governments to provide adequate managerial and financial resources. The report estimates that 36% of all Bank/IDA projects suffer from financial problems, largely related to the inability of borrowers to provide adequate counterpart funds.

25. In Bolivia, for instance, an education and vocational training project approved in 1977 is still only 53% disbursed because of continued shortages of counterpart funds. The local funding problem has become even more difficult in the past year because of the recent Peso devaluation and high inflation. Only about 25% of the amount required to complete the project has been allocated in this year's budget. Similar problems have been encountered with the Bauchi State Agricultural Development Project in Nigeria. Counterpart funding for this project has been running at about half of the expected rate, and is barely adequate to cover recurrent costs; consequently most development work has ceased. Large amounts of earthmoving equipment previously purchased under the project are lying idle because of the lack of supplies and raw materials. Engineering staff are beginning to leave the project because of underemployment and low morale. While the Bank has taken steps to accelerate disbursements, potential benefits will continue to be foregone until adequate overall financing is assured.

26. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, some Bank-financed Industrial Development Banks have experienced reduced profitability and/or increasing loan arrears, as in projects in Korea, the Philippines, Colombia,

and Kenya. Agricultural projects expected to produce goods for exports have been affected by declining commodity prices, e.g., projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been impeded by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds. External financing problems have had a direct impact on two steel mill projects in Brazil. High interest costs and reduced access to foreign capital markets, as well as weak internal demand for steel and lower than expected government contributions, have resulted in these projects coming to a halt.

III. Bank Response An Action Program

A. Scope and Objectives

27. This review indicates the severe development problems faced by an array of developing countries as they curtail expenditures and levels of economic activity to meet the current crisis. Bank Group lending is not, of course, designed to deal with short-term liquidity problems which are the proper focus of the IMF and the commercial banking system. There is, however, an impelling need for the Bank and others to make an extraordinary effort urgently to provide our borrowers with complementary financial assistance and policy advice. The main objective is to help these countries sustain high priority development activities and hence avoid the erosion of future growth prospects.

28. A World Bank Action Program is proposed, concentrated on achieving results over the next two years. The Program entails an acceleration in the disbursements on existing loans, a shift in the pattern of new commitments in

favor of fast disbursing operations, and a proposal for a modest increase in the volume of new commitments, thereby helping maintain development momentum. The Program will focus on those Bank borrowers with the greatest need and which have also made a determined effort to implement appropriate adjustment policies. The eligibility criteria of need and performance will be evaluated and applied through the Bank's ongoing country economic and sector work. We expect that the bulk of the financial resource transfers will go to countries which have sought to correct exchange rate and internal price distortions and where the overall management of public resource mobilization and use is satisfactory. Associated with the Bank's financial resource transfer will be an enhanced program of economic and sector work and other forms of technical assistance in areas in which the Bank's cross-country knowledge and experience may offer a comparative advantage. The Bank will also take the initiative in urging other lenders to support these initiatives through parallel actions of their own.

29. Accomplishing these objectives will require a number of adjustments in certain Bank practices and procedures. The suggestions, described in the following section of this paper, are not radical departures but are intended to encourage the expanded use of practices and mechanisms used sparingly in the past. While not free from risks, these actions, which would be tailored specifically to meet country requirements, do not entail lowering Bank standards in terms of macro economic and sectoral policy conditionality, or creditworthiness and portfolio quality or project related conditions; they are designed to permit a more flexible response to the varied needs of Bank borrowers confronted by extremely difficult economic circumstances.

30. The Action Program is intended to apply to all eligible World Bank borrowers, of which the IDA countries are most in need. However, due to the

severe shortage of IDA resources, the Program is likely to have only a very limited financial impact on IDA borrowers, most of which already benefit from many of the mechanisms described below. Increasing the volume of IDA resources available for commitment is Management's highest priority.

B. Major Elements of the Program

31. (i) Expanded Structural Adjustment Lending. Since 1979 structural adjustment lending has been a valuable Bank tool for helping borrowers design and undertake major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick disbursing assistance. SALs have provided an excellent opportunity, in the limited number of countries that have so far met the required standards, for enhanced policy dialogue on broad economic and sectoral policies.

32. Major efforts are underway to develop and further extend SAL programs, and several additional countries are likely in the near future to adopt policy reforms that will satisfy established SAL performance criteria. Where possible and desirable as part of the program of facilitating major policy changes, SALs will be increased in size to provide enhanced resource transfers over the next two years. When analysis of the country circumstances suggests it would be appropriate, the share of SALs in the total country lending program may as a result rise above the present country average of about 30%. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. If, and when, it appears that the increase in SAL commitments will exceed 10% of the Bank's lending program, Management will so advise the Board. [If all SAL proposals materialize, the share is likely to reach 10% in FY83 and approximately 15% in FY84.]

33. (ii) Increased sectoral support activities. There are many countries in which comprehensive SAL programs are not yet feasible or needed, but where more narrowly circumscribed policy reforms focussed on specific sectors, subsectors or activities is possible and in support of which the Bank can provide fast disbursing assistance. Greater use will be made of such lending approaches as the financing of substantially increased imports of intermediate goods and spare parts, in order to expand the utilization of available capacity and increase production and exports. Examples would be loans for export development, agricultural rehabilitation, and fertilizer production. The objective of these operations is to focus on policy reforms and administrative measures in the specific sector so as to restore financial discipline and to achieve a commensurate increase in efficiency of production, foreign exchange earnings or savings. Recent proposals include the Industrial Exports loan to Mexico, fertilizer loans for Nigeria and India, and an import loan for agricultural development in Brazil.

34. (iii) Increasing the Bank-financed share of project costs. Resources are fungible within countries, and the level of Bank lending for each country is based on its needs, overall creditworthiness, performance, the Bank's portfolio share, and the availability of Bank resources. The means by which these funds are transfered is a matter of lending strategy. For example, the Bank frequently finances less than the full foreign exchange cost of projects in middle income countries where cofinancing is forthcoming. In other areas, the Bank finances all foreign and some local costs in order not to skew project selection in favor of foreign exchange intensive projects, or provide foreign exchange that is not project-tied in countries with acute balance of payments difficulties.

35. Decisions about the Bank's share of project costs have generally been guided by the following considerations: (a) it should be sufficiently large so as to ensure adequate Bank involvement, but not so large as to discourage borrower responsibility or incentives to raise other resources, both domestic and foreign; (b) it should take account of the capability of member countries, particularly the poorest countries, to finance their portion of the project; and (c) it should acknowledge the need to support innovative projects and avoid distorting the borrower's expenditure priorities.

36. As part of the Action Program, modifications in this cost sharing strategy will be undertaken on a country and project specific basis. The objective will be the completion of high priority projects and programs. The following techniques will be utilized, with particular emphasis on existing projects where the impact on resource transfers is greatest.

(a) <u>within existing loans:</u>

(i) change disbursement ~~practices~~ profile to disburse more than a proportionate share of the loan in the next two years;

(ii) where justified, reduce the scope of ongoing projects but retain the entire amount of Bank financing so that the Bank effectively covers a higher percentage share of costs;

(iii) raise the disbursement percentage under existing loans, either in conjunction with or in anticipation of a supplemental loan, or as a way of transfering resources arising from cost savings; in certain cases expenses already incurred would be financed retroactively.

(b) <u>supplementary loans</u>:

(i) where less than full financing has been provided in the past, we propose to increase the Bank's share of financing to cover the full foreign exchange costs, including interest during construction;

(ii) appropriately increase the proportion of project cost financing by the Bank;

(iii) where a number of projects in the same country are all affected by the same externally aggravated problem, make a consolidated supplementary loan to facilitate the financing of a greater proportion of costs on a group of loans; each supplementary loan will carry the same amortizaion schedule as that of the original loan.

(c) <u>for new commitments</u>:

(i) expand financing of incremental recurrent costs in selected Bank projects, as has occasionally been the case in IDA projects;

(ii) operations and maintenance components are to be emphasized in view of their importance in helping countries better utilize existing investments and operate and maintain new investments;

(iii) financing of spare parts, raw materials, and other inputs aimed at improving productivity and overall performance will be given increased emphasis;

(iv) project design will pay increased attention to the opportunities for applying user charges or tariffs in ways which will permit projects to be sustained, and overall fiscal management issues addressed;

(v) for loans to DFCs, it is proposed to modify the practice of concentrating Bank finance on the foreign exchange cost of equipment, and encourage expanded financing of working capital, equity and local cost for company rehabilitation programs.

Implementation of these measures will in some cases require changes in project descriptions and loan agreements, and will call for expanded use of revolving funds to assist borrowers in meeting pre-financing needs. In making consolidated supplementary loans special procedures will be devised to handle the transfer of financial resources to be sure they are effectively utilized within the next 24 months. Moreover, in pursuit of sound investment programs some Bank-financed projects will warrant early cancellation. The Action Program will assist in providing resources quickly to higher priority activities. Finally, wherever possible, the Bank's internal procedures will be speeded up, including greater efforts to reduce any disbursement delays on existing loans. Other improvements are now being studied by an interdepartmental task force which will make recommendations in the near future.

37. Enhanced policy dialogue. The financial contribution~~, while not insignificant,~~ is only part of enhanced support the Bank can provide. When asked, the Bank will help governments review investment programs and assist in designing macroeconomic policies, systematize debt information and management programs, and help restructure development plans and investment priorities in the light of changing external and domestic developments. SALs, for example, have provided an important means of drawing upon extensive Bank experience and economic and sector work and have improved the quality of the Bank's macroeconomic dialogue with its borrowers. A review of proposed Country Economic and Sector Work for the next 12-18 months reflects a significant increase in

the number of special economic missions and other vehicles for economic analysis and policy support which will be an important part of the Action Program.

38. Bank leadership to encourage action by others. While the Bank's own efforts should have a significant impact, the volume of additional resources that can be transferred is modest compared with total new borrowing by developing countries. The effectiveness of the Program will be greatly strengthened if other international lending institutions and bilateral aid donors take similar actions. The Bank's leadership could be an important factor in drawing others into a joint effort with borrower governments. To this end, over the next six months, the Bank will take the following steps:

- The President will make one or more major addresses in appropriate fora in which the background and essential themes of this program are emphasized and the cooperation of other institutions and nations sought.
- At future meetings of aid consultative groups, which bring together under Bank chairmanship officials from borrower and donor governments, analysis will be provided to encourage similar actions by all lenders.
- The Bank will explore the need for special meetings with public or private lenders.
- The Bank will propose that the Development Committee, and Development Assistance Committee of the OECD, schedule special sessions on this topic.

39. While the Program described here will evolve to suit individual country considerations, a special review will be held in 12 months to assess the impact ~~thus far~~ of the program and the need for changes. At that time

there will be more information on which to assess the speed of world economic recovery and the degree to which further special actions will be required.

C. Implications of Alternative Program Levels

40. The various elements of the Program described above offer a range of opportunities for accelerating disbursements and the provision of policy advice to needy borrowers. While precise figures and details on the most appropriate timing and mix of operations will need to emerge from intensive discussions with borrowers, the summation set forth below derives from a country-by-country and region-by-region review of current and potential fast-disbursing lending activities. Based on this review, two broad options are presented: Option I entails a program of accelerated disbursements within the planned levels of IBRD commitments for FY83 and FY84; Option II allows for a modest net increase in IBRD commitment levels of $1.8 billion above that originally programmed for FY84.

41. [In assembling estimates of program size, every effort has been made to accurately reflect Regional judgments on countries which would deserve special attention on a basis of performance and need, and on the speed at which actions can be taken. In several cases, however, Regions indicated that even larger programs than those suggested here could be effectively implemented.]

42. The two illustrative options are:

Impact of World Bank Action Program on IBRD Commitments and Disbursements ($ billion)

	Additional Commitments			Additional Disbursements			
	FY83	FY84	Total	FY83	FY84	FY85	Total
Option I	-	-	-	0.2	1.3	0.7	2.2
SALs	0.4	0.4	0.8	-	0.6	0.2	0.8
Sector Activities	0.1	0.4	0.5	-	0.3	0.2	0.5
Cost Sharing	0.5	0.7	1.2	0.3	0.6	0.7	1.6
Other Projects	-1.0	-1.5	-2.5	-0.1	-0.2	-0.4	-0.7
Option II	-	1.8	1.8	0.2	1.8	1.7	3.7
SALs	0.4	0.8	1.2	-	0.6	0.6	1.2
Sector Activities	0.1	1.8	1.9	-	0.8	0.8	1.6
Cost Sharing	0.5	0.7	1.2	0.3	0.6	0.7	1.6
Other Projects	-1.0	-1.5	-2.5	-0.1	-0.2	-0.4	-0.7
Memorandum Item							
Current Program a/	~~10.4~~ 11.2	11.9	22.3	7.3	8.5	9.6	25.41

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a/ Currently planned commitments PAB, (1/6/83). Gross disbursements are from 1982 Budget document (5/20/82). Net disbursements to current borrowers and net transfers are estimated at 5.4, 6.0, 6.4 and 2.7, 2.7, 2.4 for FY83-85, respectively.

43. Option I involves no increase in commitments above currently planned levels, but efforts would be made to alter procedures and restructure operations within existing levels in favor of an accelerated pace of net disbursements. On this basis, the pattern of the Program would be weighted in favor of the cost sharing category. The Program would yield an increase in disbursements of \$2.2 billion over the period FY83-85; this represents an increase of almost 30% in net transfers for these years. is it 3 years or 2.5 ?

44. Option II proposes increasing commitments in FY84 by about \$1.8 billion over the current planning levels. This would mean additional disbursements of \$3.7 billion in the next three years and an increase in net transfers by about 50%. ditto This more ambitious Program emphasizes fast disbursing assistance under the categories of SALs and sector activities. The feasibility of the Program also depends on recipient countries undertaking appropriate policy adjustment that are associated with SAL lending. We are reasonably optimistic that these changes will be made. There is some indication that the availability of significantly larger resources for SALs and other fast disbursing programs would help enhance the quality and results of the policy dialogue, concurrently with the expansion of our country economic and sector work.

45. In relation either to the total financing needs of the developing countries or to the planned IBRD lending program, the financial transfers implied in the Action Program - whether Option I or Option II - are insignificant. However, in relation to the individual countries which will benefit from the acceleration in disbursements (and policy advice) the Program can be critical in providing resources to support the maintenance of existing infrastructure as well as a restructured high-priority investment program.

47. As noted in para. 30, the Program outlined here will be less effective for IDA borrowers despite the fact that all of them are seriously affected by the recession. While major efforts are underway to provide increased policy support through expanded country economic and sector work in the poorest countries, the absence of additional IDA commitment authority and the fact that many of the mechanisms described in paras. 31-36 are less applicable to IDA countries, will limit the scope of the financial actions that can be taken within the Action Program. For example, while disbursements planned for future years can be moved forward to finance fast disbursing credits in FY83-84, the risks of falling short in IDA commitment authority in future years is very substantial given the current state of IDA finances. Since cost sharing is already high in most IDA-financed projects, there is not much scope for expanding disbursements over the next two years. Moreover, the ability of some IDA countries to come to grips with the complex problems of sudden sharp adjustment is weakened by the quality of their administrative structures and small supply of technical expertise, thereby limiting the ease with which structural adjustment lending can be expanded. Nonetheless, an effort will be made to accelerate disbursements wherever feasible. A preliminary estimate is that such an effort could result in an increase of $250 million in disbursements during FY83-84.

D. Implications for World Bank Finances, Staffing and Budget

[Being prepared by Finance; will be distributed to OPSC members separately.]

IV. Conclusions and Recommendations

[To be prepared in light of OPSC discussion.]

ANNEX

[These tables will be revised: they contain Regional Proposals based on the assumption that an increase in IBRD commitments in FY83 and FY84 would be feasible.]

Table I

World Bank Action Program

Adjusted Regional Proposals for Bank Lending
($ millions)

Totals by Region

Region	Commitments FY83	Commitments FY84	Disbursements FY83	Disbursements FY84	Disbursements FY85 (first half)
East Africa	85	104	-	50	139
West Africa	223	100	53	174	160
EMENA	380	490	-	575	295
LAC	940	970	206	1155	823
East Asia	450	840	235	475	650
South Asia	100	565	45	360	370
TOTAL	2178	3069	539	2789	2437
Total (all yrs.)	**5247**			**5765**	

Totals By Category of World Bank Action Program

Structural Adjustment Loans

Region	Commitments FY83	Commitments FY84	Disbursements FY83	Disbursements FY84	Disbursements FY85 (first half)
East Africa	15	80	-	15	80
West Africa	200	-	-	100	100
EMENA	250	-	-	200	50
LAC	-	230	-	170	60
East Asia	100	300	100	50	300
South Asia	-	115	-	75	40
TOTAL	565	725	100	610	630
Total (all yrs.)	**1290**			**1340**	

Sector Support Activities

Region	Commitments FY83	Commitments FY84	Disbursements FY83	Disbursements FY84	Disbursements FY85 (first half)
East Africa	70	-	-	30	40
West Africa	-	100	-	50	50
EMENA	80	300	-	230	150
LAC	250	560	-	350	360
East Asia	-	100	-	-	100
South Asia	-	450	-	170	280
TOTAL	400	1510	-	830	980
Total (all yrs.)	**1910**			**1810**	

Cost Sharing

Region	Commitments FY83	Commitments FY84	Disbursements FY83	Disbursements FY84	Disbursements FY85 (first half)
East Africa	-	24	-	5	19
West Africa	23	-	53	24	10
EMENA	50	190	-	145	95
LAC	690	180	206	635	403
East Asia	350	440	135	425	250
South Asia	100	-	45	115	50
TOTAL	1213	834	439	1349	827
Total (all yrs.)	**2047**			**2615**	

Table 2

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

EAST AFRICA
($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALS					
Mauritius	15	-	-	15	-
Kenya	-	50	-	-	50
Malawi	-	30	-	-	30
Sub-total	15	80	-	15	80
2. Sector Support Activities					
Zambia (Mining)	70	-	-	30	40
Sub-total	70	-	-	30	40
3. Cost Sharing					
Botswana (Water)	-	14	-	5	9
Zimbabwe (DFC)	-	10	-	-	10
Sub-total	-	24	-	5	19
TOTAL	**85**	**104**	-	**50**	**139**

Table 3

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

WEST AFRICA

($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALs					
Ivory Coast	200	-	-	100	100
Sub-total	200	-	-	100	100
2. Sector Support Activities					
Nigeria (Fertilizer)	-	100	-	50	50
Sub-total	-	100	-	50	50
3. Cost Sharing					
Nigeria	-	-	53	18	10
Ivory Coast	23	-	-	6	10
Sub-total	23	-	53	24	10
TOTAL	**223**	**100**	**53**	**174**	**160**

Table 4

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

EMENA

($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALs					
Yugoslavia	250	-	-	200	50
Sub-total	250	-	-	200	50
2. Sector Support Activities					
Yugoslavia (Fertilizer Production)	80	-	-	80	-
Romania (Export Promotion)	-	200	-	100	100
Morocco (Export Production)	-	100	-	50	50
Sub-total	80	300	0	230	150
3. Cost Sharing					
Turkey	-	70	-	30	40
Yugoslavia	50	-	-	30	20
Egypt	-	70	-	50	20
Tunisia	-	50	-	35	15
Sub-total	50	190	-	145	95
TOTAL	**380**	**490**	-	**575**	**295**

Table 5

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

LATIN AMERICA

($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALs					
Central America	-	145	-	105	40
Panama	-	50	-	30	20
Peru	-	35	-	35	-
Sub-total	-	230	-	170	60
2. Sector Support Activities					
Mexico (Industrial Exports)	250	-	-	150	100
Brazil (Industrial Sector/ Agricultural Sector)	-	450	-	100	250
Central America (El Salvador or Guatemala)	-	40	-	30	10
Uruguay (Agricultural Sector)	-	70	-	70	-
Sub-total	250	560	-	350	360
3. Cost Sharing					
Mexico	200	-	163	231	186
Brazil	400	150	-	350	200
Peru	35	20	-	11	7
Central America	30	10	30	10	10
Colombia	25	-	-	25	-
Chile	-	-	13	8	-
Sub-total	690	180	206	635	403
TOTAL	**940**	**970**	**206**	**1155**	**823**

Table 6

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

EAST ASIA

($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALs					
Philippines	50	-	50	-	-
Thailand	50	250	50	50	250
Korea	-	50	-	-	50
Sub-total	100	300	100	50	300
2. Sector Support Activities					
Malaysia	-	100	-	-	100
Sub-total	-	100	-	-	100
3. Cost Sharing					
Indonesia	-	380	100	200	100
Philippines	100	60	-	50	110
Thailand	150	-	35	75	40
Korea	100	-	-	100	-
Sub-total	350	440	135	425	250
TOTAL	450	840	235	475	650

Table 7

WORLD BANK ACTION PROGRAM

Regional Proposals For Additional Bank Lending

SOUTH ASIA

($ million)

	Additional Commitments		Additional Disbursements		
	FY83	FY84	FY83	FY84	FY85
1. SALs					
Pakistan	-	60	-	50	10
Sri Lanka	-	55	-	25	30
Sub-total	-	115	-	75	40
2. Sector Support Activities					
India (Fertilizer)	-	150	-	70	80
India (Engineering Exports)	-	300	-	100	210
Sub-total	-	450	-	170	280
3. Cost Sharing, etc.					
India	100	-	45	115	50
Sub-total	100	-	45	115	50
TOTAL	**100**	**565**	**45**	**360**	**370**

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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 11, 1983

TO: OPS Department Directors

FROM: E. Bevan Waide, Director, CPD VBW.

EXTENSION: 60121

SUBJECT: Draft Paper: A World Bank Special Action Program, 1983-84

Mr. Husain has suggested that we discuss the attached draft paper at the regular OPS Directors meeting on Wednesday, January 12.

I look forward to your comments and suggestions. A revised version of the paper is scheduled to be distributed on Friday, January 14 for OPSC discussion on January 19.

Attachment

cc: Messrs. Husain (w/o attachment)
van der Tak (w/o attachment)
Richardson
Raizen

1.50

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. S.S. Husain

DATE: January 11, 1983

FROM: E. Bevan Waide, Director, CPD

SUBJECT: Draft Paper: A World Bank Special Action Program, 1983-84

Attached is a revised draft of the Special Action Program paper. I would welcome your comments. The paper is scheduled to be distributed to members of the Operations Policy Subcommittee on Friday, January 14. This version does not include Section D on the financial implications of the Program, or paragraphs on the measurement of country policy performance, which will be drawn from material awaited from Finance and ERS respectively.

Attachment

cc: Messrs. E. Stern)
H. van der Tak) with attachment
Members of Working Group)

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A WORLD BANK SPECIAL ACTION PROGRAM, 1983-84

Country Policy Department
January 11, 1983

A WORLD BANK SPECIAL ACTION PROGRAM - 1983-84

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January 11, 1983

A World Bank Special Action Program, 1983-84

I. Introduction

1. The international economy remains in the grip of an economic crisis and there is still little evidence on which to base hopes for an early recovery. With few exceptions, the industrial countries of Europe and North America, the newly industrialized developing countries, the lower-income countries of Africa and Asia and the major oil-exporting nations have been hard hit by the recession, reflecting the growing interdependence of the world economy. The Bank's borrowers are almost all experiencing serious economic difficulties, reflected in reduced or even negative growth of income, and also in foreign and domestic savings. The adjustment process following the shocks of the early 1970's was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows. This time there is no growth in aid, and commercial capital, when available, entails record high real interest costs. Many Bank borrowers are being forced to reduce both public and private recurrent and capital expenditure, disrupt investment programs, delay the completion of high priority development projects and reduce the level of maintenance of infrastructure. Bank financed projects are not immune from these pressures, and disbursement performance has deteriorated as a result.

2. What can the Bank do in the face of this exceptional loss of development momentum? While the IMF and the commercial banks are the major sources of financial support to meet short-term needs, the pressing development

requirements of borrowing countries argue strongly for an extraordinary effort by the World Bank. A Special Action Program is proposed for the next 24 months to assist those borrowers making a determined effort to undertake the difficult measures needed to sustain development momentum despite adverse external circumstances. Without lowering standards or weakening portfolio quality, the Bank proposes:

(a) to accelerate disbursements under existing and planned loan commitments, in order to maintain project momentum;

(b) to increase commitments for operations, usually fast disbursing, that support structural adjustment and policy change and the maintenance of crucial infrastructure;

(c) to provide increased advice on the design and implementation of appropriate policies, including the reordering of investment priorities; and

(d) to urge that other lenders make similar efforts.

[The program is expected to result in an increase of about $5 billion in Bank disbursements over the next 24 months.]

3. This paper presents a diagnosis of the current world economic situation and its impact, and then presents the Special Action Program we propose to undertake and the implications this program has for the Bank's finances and staffing. 1/

1/ The recession has also reduced the rate of disbursements on IFC supported projects. Since the IFC serves essentially as a catalyst in financing, it is also limited in the extent to which it can affect real resource transfers to its borrowers. But within these limits, the IFC has also been looking for specific opportunities to promote export oriented and/or quick disbursing projects and is considering ways of helping countries in its portfolio that are in difficulty.

II. The Current World Economic Situation and Problems to be Met

A. The World Economic Situation

4. The world economic recession is exceptional in its severity and its duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Slow growth and sustained high interest rates in the industrialized countries have resulted in much reduced growth in the developing countries.

5. During the 1974-75 recession, a large amount of private capital was quickly recycled through the banking system to the oil importing developing countries, and official capital flows were increased. Thus, these countries were largely able to maintain their pace of development until OECD growth recovered. Growth in the developed countries recovered by 1976, and current account deficits of the oil importing developing countries declined from a peak of about 5% of collective GNP, to about 2%, roughly equal to average pre-1973 levels. Rapid growth in the oil exporting countries helped maintain the demand for exports from developing countries. Sustained growth in the developing countries helped advance the process of adjustment to higher energy prices.

6. Since 1980, current account deficits have averaged about 5% of GNP for the oil importing developing countries as a group, and began to be reduced only slightly in 1982. Their current account deficits are likely to be significantly smaller in 1983 as growth slows down further. This reflects not a successful adjustment process, but reduced access to commercial credit by developing countries made less creditworthy by a large accumulation of debt

and a stagnant world economy. Unlike the post 1974-75 recovery period, there has been no increase in official assistance, and the oil exporting countries have also experienced significant problems causing them to reduce growth and their demand for imports. Moreover, the late-1979 and early-1980 oil price increases added to already existing inflationary pressures in many developed countries. In an attempt to control this inflation, some of the larger countries adopted deflationary policies which slowed growth and raised interest rates. The present recession has also been unusual in that record high real interest added to the adjustment burden of the developing countries. Up to 1978 most developing countries' debt was contracted at fixed interest rates, so increasing inflation lowered their real debt burden; the move to variable interest rate borrowing eliminated this windfall gain.

7. Efforts to restore growth in the OECD countries now appears to be more difficult than initially appreciated. Although OECD growth rates fell from 3.6% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. Current OECD forecasts, however, have been revised downwards and show only a weak recovery in the second half of 1982. As a result, overall OECD growth is expected to be negative for 1982 as a whole (-.2%), with uncertainty about recovery in 1983 (1.5% now forecast compared to 3.0% a year ago). Indeed, recovery may be delayed to 1984.

Table 1: Changes in Real GDP 1973-82

(percent)

	Industrial Countries	Developing Countries	
		Oil Exporters a/	Net Oil Importers b/
1963-72	4.7	8.4	5.8
1973	6.2	10.0	5.8
1974	0.6	7.4	5.4
1975	-0.5	7.7	3.5
1976	4.9	10.5	5.8
1977	4.0	5.2	5.4
1978	4.0	3.2	5.3
1979	3.6	4.2	4.2
1980	1.3	0.3	3.9
1981	1.2	-3.2	1.7
1982(preliminary estimates)	[-0.2]	[1.0]	[1.5]

Note: IMF/WEO data and country classification through 1981; 1982 estimated from OECD, EPD data.

a/ Includes the group of net oil exporting countries as defined by the IMF.
b/ Excludes China.

8. The decline in the level of demand in the industrial countries has resulted in a slowdown in the growth of world trade. The 1982 GATT Annual Report shows an unchanged volume of trade during 1981. This trend is likely to continue through 1982. Imports by the OECD countries have declined in volume terms during the past three years. The most dramatic changes, however, have been in the OPEC countries, where export volumes have declined by an average of about 15% per year from 1980 to 1982. This reflects both a short-term drop in demand in industrial countries as a result of the recession as well as the longer-term impact of higher prices and greater conservation measures. As unemployment has risen in developed countries, there has been growing pressure for protectionist measures often aimed at imports from

developing countries. As a result, the real growth of exports of the oil-importing developing countries is expected to be only about 2% in 1982, and perhaps even lower in 1983.

9. The current slump in the world economy has led not only to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. While these countries have benefitted recently from lower oil prices, reduced inflation in manufactured imports, and lower interest rates, these beneficial effects have been more than offset by steep declines in primary commodity prices. The Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 4% in 1980-81, and about 2% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. The cumulative change in their terms of trade between 1979 and 1982 amounts to an adverse shift of close to 25%.

10. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' imports have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three years running. Less severely affected have been the oil exporting countries, which have generally been able to maintain import growth despite falling export volume, due to improved terms of trade and greater access to capital markets. Even these countries began to feel the pinch in 1982, when the terms of trade began to move against them, and access to capital markets became more uncertain.

Table 2: Changes in Terms of Trade

	1979	1980	1982	1982 (est.)	1983 (est.)
Industrial Countries	-2.6	-7.6	-0.7	1.5	[1.0]
Developing Countries					
Oil Exporting	28.6	41.6	12.2	-5.4	[-2.0]
Non-Oil	-0.2	-4.4	-2.2	-1.9	[-2.0]
Low-Income	-7.4	-15.0	-8.3	-2.8	[-2.0]

Source: 1979-82 IMF/WEO; 1983 estimates based on OECD.

11. During the initial years of the recession, the developing countries, particularly the oil exporters and NICs, were able partially to offset adverse external events by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from about $350 billion in 1979 to about $530 billion in 1982.1/ Only $60 billion of the increase came from official sources, the rest from private sources, chiefly commercial banks. In the early years, the commercial banks were keen to continue to recycle OPEC surpluses. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens. This was particularly true of the oil exporters and NICs, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest terms. In 1981, 13 countries had to undergo debt reschedulings, and the

1/ Based on EPD data. OECD estimates total $626 billion, but cover countries not included in EPD data base (Spain, Saudi Arabia, non-Bank LDCs, Iran and Iraq).

situation worsened further in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico).

12. The threat of a world financial crisis caused by a simultaneous default of the developing countries and a collapse of the major money center banks seems to be passing. Policy reforms, bilateral and IMF assistance are easing the short-term liquidity problems for the major debtors, although many of the underlying problems remain. Nevertheless, the aftermath of the "debt crisis" of 1982 is to make the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment. Developing countries are again faced with the prospect of reducing imports, investment, and the pace of overall development.

B. Country Experience: Macroeconomic Impact

13. There is considerable variation in the impact of the international situation on individual countries, there are also broad similarities. Most countries have experienced, in varying degrees:

- cutbacks in investment plans and slowdown of on-going projects because of shortages of domestic and external funds;
- import cutbacks because of reduced borrowing opportunities and foreign exchange reserves;
- falling government revenues, due to declining economic activity, the stagnation in trade, and the difficulty of imposing new taxes during a recession;
- falling or stagnant export earnings while debt service payments have been rising;
- shortages of funds to finance the operation and maintenance of existing facilities.

14. Many countries, such as Malaysia, Pakistan and the Ivory Coast, had been growing satisfactorily before the current crisis, but now face the prospect of a reduction in growth and investment because of reduced foreign exchange earnings and access to foreign capital. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms, over the last three years, and the bulk of the present investment program entails the completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from concessional assistance. Borrowings from the IMF already total 380% of quota.

15. Some countries, of course, were facing severe problems even before the current recession (e.g. Bangladesh, Bolivia, Sudan, Zaire), largely because of weak economic management, poor investment decisions, and excessive external borrowing. The present situation has added to their difficulties and made adjustment even more difficult.

16. Many countries have encountered problems because a high proportion of government revenues is derived from tariffs on foreign trade. Such revenue sources constitute about 48% of central government revenue in Pakistan and 70% in Liberia. In Thailand, declining revenues have resulted in a rise in the governments budgetary deficit from an expected 2.4% to 5.3% of GDP for 1981-82. Despite new revenue measures enacted by the government in this fiscal year, and 5% domestic inflation, revenues were 18% lower than expected and only marginally higher than the previous year. In Malaysia, total customs revenues in 1982 were 24% less than anticipated, while debt service was 23%

higher than budgeted. As a result, there was a 12% reduction in development expenditures, despite cuts in defense and internal security allocations.

17. The low income countries, particularly those in Africa, have been especially vulnerable to recent events. Togo is an example of a low income country in serious difficulties, although its problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and poorly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by an additional 15% in real terms as part of a further adjustment program.

18. Many countries are already taking steps to adjust to the adverse international circumstances. In Nigeria, for instance, a package of measures adopted in April 1982 led to better customs administration, higher import tariffs, increases in interest rates and gasoline prices, a reduction in the planned level of development expenditures by 40% and a ceiling on external borrowings. These steps, however, fail to come to grips with the longer term structural issues in an economy highly dependent on petroleum exports and lacking alternative export or public revenue sources.

19. Latin American countries have been particulary affected by the reduction in access to new commercial credits. As a result, a number of countries facing serious debt problems have adopted IMF stabilization programs and secured IMF assistance. While these programs vary somewhat among countries, those for Mexico, Brazil, Argentina and Chile have broad similarities; limitations on the size of goverment deficits, controls on

foreign borrowing and domestic credit creation, the establishment of realistic exchange rates and the reduction in exchange controls. But the result of these austerity measures is likely to mean slower growth, or even no growth at all, in these countries in 1983.

20. In the case of Mexico, for instance, the Government has agreed to reduce its budgetary deficit from about 17% of GNP in 1982 to 6.5% in 1983, to limit the growth of new foreign borrowing and to adopt a series of revenue measures that includes higher prices for government services, higher taxes, and reduced subsidies. In support of the Mexican program, the commercial banks have agreed to restructure $19 billion of existing debt and provide up to $5 billion of new loans to the public sector. While these measures will help, Mexico still has major structural problems to confront.

21. The severity of the current world recession carries with it the danger that countries will be unable to carry out previously initiated programs of economic reform and structural adjustment. In Pakistan, for instance, a number of steps have already been taken since 1977 to restructure the economy along more viable lines and lay the groundwork for long term growth. Higher agricultural prices have stimulated food output, and some agricultural subsidies have been eliminated. Higher water charges have increased the funds available for the operation and maintenance of the irritation system, while the investment program in irrigation has been reoriented toward projects having short gestation periods and higher yields. The biases of the trade regime have been reduced through better incentives for exports and a phased program of import liberalization. Greater private sector involvement has been introduced into the manufacturing and energy sectors, and energy prices made more realistic.

22. While these reforms have been supported by the Bank (SAL) and the Fund (EFF) much more needs to be done. In the past year the current account deficit increased 54%, principally due to a 17% decline in exports and slower growth in migrant remittances. In addition, official assistance has continued to decline over the level received in the mid-70s. Without further support by the Bank and Fund, it will be difficult for the government to carry out its structural adjustment program.

23. In varying degrees, almost all countries now face difficult decisions as they attempt to trade-off reductions in investment programs with imposition of new financing measures or greater external borrowing. There is the danger, of course, that in choosing among these alternatives, countries will tend to eliminate government programs in human resources and the social sectors which have the most beneficial impact on the poor. If followed, such an approach could have a very adverse impact on long-term growth and social stability.

C. Country Experience: The Impact on Bank-Financed Projects

24. Bank assisted projects have not been immune from the pressures on other components of governments' investment programs. A recent Bank report on project implementation 1/ notes that the impact of the worldwide recession on developing countries and their difficulties in making the necessary adjustments in their economies are reflected in increasing delays in the implementation of projects; these problems effect adversely the entire process of policy decision making, as well as the ability of the governments to provide adequate managerial and financial resources. It estimates that 36% of all Bank/IDA projects now suffer from financial problems, largely related to the inability of borrowers to provide adequate counterpart funds.

1/ Draft FY82 Report on Project Implementation and Supervision, (12/28/82).

25. In Bolivia, for instance, an education and vocational training project approved in 1977 is still only 53% disbursed because of continued shortages of counterpart funds. The local funding problem has become even more difficult in the past year because of the recent Peso devaluation and high inflation. Only about 25% of the amount required to complete the project has been allocated in this year's budget. Similar problems have been encountered with the Bauchi State Agricultural Development Project in Nigeria. Counterpart funding for this project has been running at about half of the expected rate, and is barely adequate to cover recurrent costs; consequently most development works have ceased. Large amounts of earthmoving equipment previously purchased under the project are lying idle because of the lack of supplies and raw materials. Expatriate engineering staff are beginning to leave the project because of underemployment and low morale. While the Bank has taken steps to accelerate disbursements, potential benefits will continue to be foregone until adequate overall financing is assured.

26. The current world situation has affected Bank projects in a variety of other ways. Because of depressed internal conditions, many Bank-financed industrial development bank projects have experienced reduced profitability and increasing loan defaults. This is true of projects in Korea, Philippines, Colombia, and Kenya. Agricultural projects which expected to produce goods for exports have been affected by declining commodity prices. This has adversely affected projects in sugar (Jamaica, Dominican Republic), iron ore (Mauritania), and tobacco (Tanzania). Many projects have been affected by the shortage of foreign exchange to import required fuel and spare parts for project operation, as well as the shortage of counterpart funds. External financing problems have had a direct impact on two steel mill projects in Brazil. High interest costs and reduced access to foreign capital markets, as well as weak internal demand for steel and lower than expected government

contributions, has resulted in these projects coming to a halt. Overdue payments by these corporations now total $600 million and both companies have begun to miss payments on foreign loans.

III. Bank Response - The Special Action Program

A. Scope and Objectives

27. This review indicates the severe development problems faced by a wide array of developing countries as they curtail expenditures and levels of economic activity to meet the current crisis. The World Bank, along with other sources of external assistance, needs to take all possible steps to help borrowers alleviate this situation. Bank Group lending is not, of course, designed to deal with short-term liquidity problems which are the proper focus of the IMF and the commercial banking system. There is, however, an impelling need for extraordinary measures by the Bank and others to provide, over the next 18-24 months, complementary financial assistance and policy advice in an effort to help countries maintain high priority development expenditures and hence avoid the erosion of future growth prospects.

28. A Special Action Program is proposed, concentrating on achieving results over ~~in~~ the next 18-24 months. The Program entails an increase in the volume of fast disbursing new commitments and an acceleration in the disbursements on existing loans, thereby helping to maintain development momentum. The Program will focus on Bank borrowers with the greatest need and which have also made a determined effort to implement appropriate adjustment policies. These criteria can be evaluated and applied through the Bank's ongoing country economic and sector work. Associated with this financial program will be an enhanced program of economic and sector work and other forms of technical assistance where the Bank's knowledge and experience offer a comparative advantage. The Bank will take the initiative to urge other lenders to collaborate in a coordinated effort.

? and/or shifted commitments

3 1 acceleration disbursements of existing loans.
1 2 Shift forward of new commitments.
3 Increase/shift additional commitments

29. Accomplishing these objectives will require a number of adjustments in certain Bank practices and procedures. The suggestions, described in the following section of this paper, are not radical departures but are intended to encourage the expanded use of practices and mechanisms used sparingly in the past. While not free from risks, these actions, which would be tailored specifically to meet country requirements, do not entail lowering Bank standards in terms of macro economic and sectoral policy conditionality, creditworthiness and portfolio quality or project related conditions; they are designed to permit a more flexible response to the varied needs of Bank borrowers confronted by extremely difficult economic circumstances.

30. The Special Action Program is intended to apply to all eligible World Bank borrowers, of which the IDA countries are most in need. However, due to the severe shortage of IDA resources, the Program is likely to have only a limited financial impact on IDA borrowers, most of which already benefit from many of the mechanisms described below. Increasing IDA resources available for commitment is Management's highest priority.

> [Once Management decides on the size and scope of this Program, the following sections will be suitably redrafted for Board presentation. After describing the Program's content in Section B below, Section C will present three alternative funding options for consideration.]

B. Major Elements of the Program

31. (i) Expanded Structural Adjustment Lending. Since 1979 structural adjustment lending has been a valuable Bank tool for helping borrowers design and undertake major structural changes in their economies. Rigorous performance criteria have been matched by substantial amounts of quick

disbursing assistance. SALs have provided an excellent opportunity, in the limited number of countries that have met the required standards, for enhanced policy dialogue on broad economic and sectoral policies.

32. Major efforts are underway to develop and further extend SAL programs, and several additional countries are likely in the near future to adopt policy reforms that will satisfy normal SAL performance criteria. Where possible and desirable as part of the program of facilitating major policy changes, SALs will be increased in size to provide resource transfers over the next two years. When analysis of the country circumstances suggests it would be appropriate, the share of SALs in the total country lending program may as a result rise above the present country average of about 30%. This will reinforce the importance attached by the Bank to policy reforms which are fundamental to meeting development objectives and increasing creditworthiness. If, and when, it appears that the increase in SALs will exceed 10% of the Bank's lending program, management will so advise the Board.

33. (ii) Increased sectoral support activities. There are many countries in which comprehensive SAL programs are not yet feasible, or needed, but where more narrowly circumscribed policy conditionality focussed on specific sectors, subsectors and activities is possible and in support of which the Bank can provide fast disbursing assistance. Greater use will be made of this approach as the financing of substantially increased imports, spare parts, credit and other fast disbursing elements of a sectoral support program are needed if available capacity is to be utilized and production and exports increased. Examples would be a sector loan, an export development fund, an agricultural rehabilitation loan, and so forth. The conditionality in this area would be focussed on policy reforms and administrative measures directly required to achieve a commensurate increase in production, foreign exchange earnings or savings. Recent proposals include the Industrial Exports loan to

for what?

not necessarily fast disbursing

1) Sectoral support program loan — fast, fertilizer, fuel, ... for what, cap. utilization, ... = conditions?
2) DFC / credit type ??
3) other?

Mexico, fertilizer sector loans for Nigeria and India, and agricultural sector loans in Brazil.

34. (iii) Increasing the Bank-financed share of project costs. Resources are fungible within countries, and the level of Bank lending for each country is based on its needs, overall creditworthiness, performance, and the Bank's portfolio share, and the availability of Bank resources. The means by which these funds are transfered is a matter of lending strategy. For example, the Bank might finance less than the full foreign exchange cost of projects in middle income countries to provide opportunities for cofinancing; alternatively, the Bank might finance all foreign and some local costs in other countries in order not to skew project selection in favor of foreign exchange intensive projects, or provide foreign exchange that is not project-tied in countries with acute balance of payments difficulties. In the current circumstances, as described in Section II above, many high priority projects have been delayed or halted due to overall shortages of both foreign and local funds or by cost escalation beyond the control of project authorities.

35. As governments take steps to reorder investment priorities and to complete or maintain high priority investments - an area where Bank assistance is available - the Bank proposes to modify existing practices to respond more adequately to borrower's urgent development needs.

36. Decisions about the Bank's share of project costs have generally been guided by the following considerations: (a) it should be sufficiently large so as to ensure adequate Bank involvement, but not so large so as to discourage borrower responsibility or incentives to raise other resources, both domestic and foreign; (b) it should take account of the capability of member countries, particularly the poorest countries, to finance their portion of the project; and (c) it should acknowledge the need to support innovative

projects and the social sectors. [Local currency financing should be an exception as provided by the Bank's Articles of Agreement (Article IV, Section 3).] Supplemental loans to cover cost overruns are rarely made so as to encourage stricter implementation and financial discipline by borrowers. [ ]

37. As part of the Special Action Program, modifications in this cost sharing strategy will be undertaken on a country and project specific basis. The objective will be completion of high priority projects and programs. The following techniques will be utilized, with particular emphasis on existing projects where the impact on resource transfers is greatest.

(a) within existing loans,

(i) change disbursement practices so as to concentrate the Bank's share of disbursements in the next two years with other resources relied upon for future years;

(ii) where justified, reduce the scope of ongoing projects but retain the entire amount of Bank financing so that the Bank effectively covers a higher percentage share of costs;

does not [illegible] transfers! [ ]

(iii) [illegible]

(b) supplement any ~~existing~~ loans ~~in the following manner~~:

(i) where a number of projects in the same country are all affected by the same externally aggravated problem, ~~a~~ make a consolidated supplementary loan ~~will be used~~ to facilitate the financing of a greater proportion of costs or cost overruns on a group of loans.

OK, but with the [illegible]

(ii) ~~ensure that~~ financing covers the full foreign exchange costs ~~costs~~ (including interest during construction) in ~~cases~~ where less than full financing has been provided in the past; [illegible]

(x) if OK on [illegible] (premiums)

(i), (ii), [iii], in all supplementary loans

(iii) raise the disbursement percentage under existing loans, either in conjunction with or in anticipation of a supplemental loan, or as a way of transfering resources arising from cost savings; in certain cases this would finance retroactively expenses already incurred.

(iv) finance up to 70% of local costs, in selected Bank borrowers where a strong case can be demonstrated;

(v) recurrent cost ~~financing~~. In the poorest countries IDA has frequently financed a share of recurrent costs, usually a declining proportion over the life of the project. Rehabilitation, operations and maintenance are now especially important requirements if countries are to better utilize deteriorating existing investments and operate and maintain new investments. Finance of working capital, spare parts, raw materials, and other inputs aimed at improving productivity and overall performance will be given increased emphasis. Project design must pay greater attention to the opportunities for applying user charges or tariffs in ways which will permit projects to be sustained, and overall fiscal management will need to be addressed. In the meantime, however, as requisite steps are taken by governments to improve both public policy and project design to deal with the recurrent cost problem, expanded recurrent cost financing in certain selected Bank financial projects is critical.

(vi) Development Finance Companies. With some exceptions, loans to DFCs have been limited to financing the foreign exchange cost of equipment imported by sub-borrowers for new projects or expansions (OMS 3.73). The financing of working capital and equity and local cost financing have occurred and should be considered more frequently. In addition, consideration should be given to allowing DFCs to finance companies' rehabilitation programs, where supported by well-conceived plans, with loal funds used to finance such items as imports of spare parts.

[illegible]

Why local funds?

??

38. Enhanced policy dialogue. The financial contribution while not insignificant, is only part of enhanced support the Bank can promise. When asked, the Bank is able to help governments prepare revised investment programs and assist in designing of macroeconomic policies, systematize debt information and management programs, and help restructure development plans in light of changing external and domestic developments. SALs, for example, have provided an important means of drawing upon extensive Bank experience and economic and sector work; they have enhanced the quality of the Bank's macro economic dialogue with its borrowers. A review of proposed CESW for the next 12-18 months reflects a significant increase in the number of special economic missions and similar forms of economic analysis and policy support which will be an important part of this special action program. In this context, the Bank is ready to assist countries which, in restructuring their investment programs, determine that available funds should be focussed on higher priority needs and that certain projects, including those financed by the Bank, should be cancelled.

39. <u>Bank leadership to encourage action by others</u>. While the Bank's own efforts will have a valuable impact, the effectiveness of the program will be greatly enhanced if other international lending institutions and bilateral aid donors take similar actions. The Bank's leadership will be an important factor in drawing others into a joint effort with borrower governments. To promote this effort, over the next six months, the Bank will take the following steps:

- The President will make a major address in an appropriate forum in which the background and essential themes of this program are emphasized and the cooperation of other institutions and nations is sought.
- At future meetings of aid Consultative groups, which bring together under Bank chairmanship officials from borrower and donor governments, necessary analysis will be provided to encourage similar actions by all lenders.
- The Bank will explore the need for special meetings, with public or private lenders.
- The Bank will propose that the Development Assistance Committee of the OECD and the Development Committee schedule special sessions on this topic.

40. While the program described here will evolve to suit individual country considerations, a special review will be held in 12 months to assess the impact thus far of the program and the need for changes. At that time it should be possible to predict with greater assurance the speed of world economic recovery and the degree to which further special actions will be required.

C. Implications of Alternative Program Levels

41. The various instruments of the Program described above offer a range of opportunities for accelerating resource transfers to needy borrowers. While precise figures and details on the most appropriate timing and mix of operations will need to emerge from intensive discussions with borrowers, the proposals set forth below derive from a country-by-country and region-by-region review of current and potential fast-disbursing lending activities. The proposed operations total about $5.5 billion in new commitments and a similar level of disbursements over the next 24 months (see Annex Table 1). Based on this review, three broad options are presented to facilitate management decisions on the proper size and composition of the program.

42. In assembling estimates of program size, every effort has been made to reflect accurately Regional judgments on countries which would deserve special attention on a basis of performance and need. In several cases, however, Regions indicated that even larger programs than those suggested here could be effectively implemented.

R What about coming +5b $ [illegible]

Reconcile w/ lending limit

?

43. The three illustrative options are:

Impact of Special Action Program
on IBRD Commitments and Disbursements
($ Billions)

	Additional Commitments			Additional Disbursements			
	FY83	FY84	Total	FY83	FY84	FY85	Total
[Current Program 1/	(10.4)	(11.9)	(22.3)	(7.3)	(8.5)	(9.6)	(25.41)]
High Option	1.5	3.5	5.0	.3	3.6	1.3	5.2
SALs	(.4)	(1.1)	(1.5)	(-)	(1.3)	(.2)	(1.5)
Sector Activities	(.1)	(1.8)	(1.9)	(-)	(1.3)	(.6)	(1.9)
Cost Sharing etc.	(1.0)	(.6)	(1.6)	(.3)	(1.0)	(.5)	(1.8)
Mid Option	1.0	1.5	2.5	.3	1.5	1.1	2.9
SALs	(.4)	(.4)	(.8)	(-)	(.6)	(.2)	(.8)
Sector Activities	(.1)	(.4)	(.5)	(-)	(.3)	(.2)	(.5)
Cost Sharing etc.	(.5)	(.7)	(1.2)	(.3)	(.6)	(.7)	(1.6)
Low Option	(-)	(-)	(-)	(.2)	(1.3)	(0.8)	(2.3) — why parens
SALs	(.4)	(.4)	(.8)	(-)	(.6)	(.2)	(.8)
Sector Activities	(.1)	(.4)	(.5)	(-)	(.3)	(.2)	(.5)
Cost Sharing etc.	(.5)	(.7)	(1.2)	(.3)	(.6)	(.7)	(1.6)
Other Projects	-1.0	-1.5	-2.5	(-.1)	(-.2)	(-.3)	(-0.6)

1/ Currently planned commitments (PAB, 1/6/83). Gross disbursement data from 1982 Budget document (5/20/82). Net disbursements to current borrowers are net transfers estimated at 5.4, 6.0, 6.4 and 2.7, 2.7, 2.4 for FY83-85, respectively.

44. The high option proposes increasing commitments in FY83-84 by almost $5 billion over current planning levels for these years and as an increment to the $60 billion 1982-86 program. Comparable additional disbursements in the next 24 months are expected. 1/ Representing about 90% of the adjusted Regional proposals, it is an ambitious but feasible program if most of the anticipated policy adjustments in key countries occur. Regions are reasonably

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1/ Should management prefer to consider extending the program into FY85, new commitments at the $2-2.5 billion level in FY85 might be considered in addition to the planned commitment level of $12.9 billion.

optimistic that these changes will be made. There is some indication that the availability of significantly larger resources for SALs and other fast disbursing programs would help enhance the quality and results of the policy dialogue. Raising total program levels by this amount would permit major countries now constrained by the 8% portfolio limitation to rise without the need for adjustment of the current ceiling. The implications of such an increase for Bank finances are discussed in Section D.

45. The middle option, at about $2.5 billion in new commitments, provides a scenario which might more easily be accommodated on financial and operational grounds, although it would fall far short of the need. In this program, which would produce additional disbursements of nearly $3 billion, about half primary attention is focussed on the cost-sharing category which generally requires less new and difficult policy adjustments by governments. The distribution between categories is, however, illustrative.

46. The low option suggests no increase in commitments above currently planned levels, but that major efforts be made to restructure operations within existing levels in favor of an accelerated pace of net disbursements. On this basis, the pattern of program - illustratively set forth in Table 1 - would again be heavily weighted, as in the mid-option, in favor of the cost sharing category.

47. As noted in para. 30, the Program outlined here will be less effecive for IDA borrowers despite the fact that all of them are seriously affected by the recession. While major efforts are underway to provide increased policy support through expanded country economic and sector work in the poorest countries, the absence of additional IDA commitment authority and the fact that many of the mechanisms described in paras. 31-37 are less applicable to IDA countries, will limit the scope of the financial actions that can be

taken within the Special Action Program. For example, while commitments planned for future years can be moved forward to finance fast disbursing credits in FY83-84, the risks of falling short in IDA commitment authority in these future years is very substantial given the current state of IDA finances. Since cost sharing is already high in most IDA-financed projects, there is not much scope for expanding disbursements over the next two years. Moreover, the ability of some IDA countries to come to grips with the complex problems of sudden sharp adjustment is weakened by the quality of their administrative structures and small supply of technical expertise, thereby limiting the ease with which structural adjustment lending can be expanded. Nonetheless, an effort will be made to accelerate disbursements wherever feasible. A preliminary estimate is that such an effort could result in an increase of $250 million in disbursements during FY83-84.

D. Implications for World Bank Finances and Staffing

(text to be provided by Finance)

48. Staffing implications. While this subject has been explored in discussions with the regions, additional attention would be necessary immediately if Management should determine that a major effort to expand the program as described in the high option is desirable. While in many cases the proposals are expansions of existing activities, there are a number of new programs as well as extensive discussion on policy issues that must still occur before some of the major proposals can proceed. (PAB recently estimated that $3-4 bilion of the recommended $66 billion lending program "is explicitly dependent on country conditionality". It is probable that this is a low estimate given the proposals in this Special Action Program.) Regions did believe, however, that the program proposed here could be accomplished with some redeployment but no additional staff.

SC o/r

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Shahid Husain

DATE: January 3, 1983

FROM: E. Bevan Waide, Director, CPD VBW

SUBJECT: The Recession: The Bank's Special Action Program

1. A preliminary CPD draft of the proposed paper for the Managing Committee and Board was distributed on December 30 to the Programs' Directors for their comments, and copied to yourself and others. Clearly the paper needs to be made more concise and tougher in its argumentation and this will be done next time around, with the help of the Regional comments.

2. We are now, with PAB, going back to the Regions to discuss the realism and consistency of programs each has prepared. There is an element of optimism in both commitments and disbursements: we will bring them to the point at which they are useable as a basis for (a) indicating to the Board the likely characteristics of a special action program, and (b) for internal planning.

3. In order to do this it would be very helpful to have your initial reaction on the feasibility of the several actions mentioned in Secion III of the paper (pages 14 through 26). If there are items here that do not warrant further consideration, or any omissions, it would be helpful to know now so that we can see that the Regional programs are amended accordingly.

4. Finally, on the timetable for the paper, I think it is desirable to work until Friday week, January 14 on the paper and the underlying program, and distribute it that day for OPS discussion on Wednesday, January 19, and subsequent revision and distribution for Managing Committee consideration on January 24. Is this timetable acceptable? [Alex Shakow will be in charge of further revisions to the paper and programs.] ?

cc: Mr. Stern
Mr. Shakow
Mr. Applegarth
Ms. Pratt
EBWaide:eg

para: 14
16
17.
24 ~~26~~ (b) Colco
27 ↓
para 30.
37
46

Let's use Aspars disbursement and net transfers figures

Mr Chernick (o/r)

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Programs Directors

DATE: December 30, 1982

FROM: E. B. Waide, Director, CPD

SUBJECT: The Recession: The Bank's Special Action Program (A Program for Accelerated Disbursements)

1. I attached a copy of a preliminary draft on this subject. I would welcome your comments on the diagnosis in Part II, and on the adequacy of the Bank's response and arguments justifying it in Part III.

2. The Special Action Program has been designed to incorporate almost all the types of projects or actions mentioned in the Regional submissions received earlier. However, these submissions implied in total, over $5 billion in additional IBRD commitments in FY83-84 and $1 billion IDA, which are presumably too far beyond the planning guidelines to be accommodated. Once there is agreement on the nature of the Special Action Program, we will come back to you with the suggestion that the Regional programs be conformed accordingly. These programs will not, of course, be a part of the Board Paper, which will limit itself to summarizing salient features of the likely program.

3. We would be grateful for your comments by c.o.b. Wednesday, January 5.

Attachment

cc: Mr. Stern
Mr. Husain
Regional Vice Presidents (w/o Attachment)
Projects Directors (w/Attachment)
Programs Coordinators
Member of the Working Group (w/Attachment)

EBW/pjp

Return to I 6-113
Mr. Shakow

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Programs Directors

DATE: December 30, 1982

FROM: E. B. Waide, Director, CPD EBW.

SUBJECT: The Recession: The Bank's Special Action Program (A Program for Accelerated Disbursements)

I have made comments on the draft beginning page 12. Hans Muller 1/5/83

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3. We would be grateful for your comments by c.o.b. Wednesday, January 5.

Attachment

P.S. Mr. Rajagopalan has seen and suggests I return to you. Hans Muller 1/6/83

cc: Mr. Stern ✓
Mr. Husain ✓
Regional Vice Presidents (w/o Attachment)
Projects Directors (w/Attachment)
Programs Coordinators
Members of the Working Group (w/Attachment)

EBW/pjp

THE RECESSION:

A WORLD BANK SPECIAL ACTION PROGRAM, 1983-84

Country Policy Department
December 30, 1982

<u>THE RECESSION;</u>

<u>A WORLD BANK SPECIAL ACTION PROGRAM, 1983-84</u>

DRAFT

December 30, 1982

The Recession:

A World Bank Special Action Program, 1983-84

I. Introduction and Summary

1. The international economy remains in the grip of an economic crisis and there is still little evidence on which to base hopes for an early recovery. With few exceptions, the industrial countries of Europe and North America, the newly industrialized developing countries, the lower-income countries of Africa and Asia and the major oil-exporting nations have been hard hit by the recession, reflecting the growing interdependence of the world economy. The Bank's borrowers are almost all experiencing serious economic difficulties, reflected in reduced growth, or even declines, in income, and also in foreign and domestic savings. Whereas the adjustment process of 1973-74 was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, this time there is no growth in aid, and commercial capital, when available, entails record high real interest costs. As a consequence of the squeeze in resources, many Bank borrowers are being forced to reduce both public and private recurrent and capital expenditure, delaying the completion of high priority development projects and reducing the level of maintenance of infrastructure. Bank financed projects are not immune from these pressures, and disbursement performance has deteriorated as a result despite the desirability of maintaining it during a period of recession.

2. What can the Bank do in the face of this exceptional loss of development momentum? While the IMF and the commercial banks are major sources of

financial support during the restoration of external and internal balances, the pressing development needs of borrowing countries argue strongly for an extraordinary effort on the part of the Bank. The Bank is not primarily designed to respond speedily to the counter-cyclical needs of its borrowers (the current ceiling on Bank commitment levels, especially IDA, and the focus of its operations on long-gestation projects are the main constraining factors), but we consider that there is scope for such an effort. We are proposing that this effort take the form of an Special Action Program of assistance over the next 18-24 months, aimed at supporting countries' own efforts to sustain their pace of development despite adverse external circumstances. The Special Action Program would achieve this through:

(a) accelerated transfer of financial resources to selected borrowers to maintain project momentum, help maintenance of crucial infrastructure, and support structural adjustment, and policy change including the reordering of investment priorities; and

(b) helping maintain an appropriate level of new commitments at a time of retrenchment in the investment programs of many countries.

3. A country-by-country and project-by-project review of the IBRD/IDA lending program has been undertaken with a view to determining more precisely the feasible content of the Special Action Program and its implications for the Bank's own finances. The design of the Special Action Program has been guided by the following principles:

(a) eligible countries are those which have been most seriously affected by the adverse external environment and which are themselves making a determined effort to undertake the difficult adjustment policy measures;

(b) any changes in Bank practices, policies or procedures to be contemplated should not entail a lowering of standards (whether macro-economic policy, sector policy or project conditionality), or lead to a weakening of portfolio quality, or create irreversible precedents for the time when a more normal international economic environment is restored;

(c) major changes in the overall levels of IBRD and IDA commitments are limited by the resource constraints on each. Given the normal project cycle time lags, it is unlikely that additional conventional commitments would have a timely impact. The emphasis will thus be on shifting the composition of new lending to favor quicker disbursing loans, on operations more responsive to the exceptional counter-cyclical needs of many borrowers, and on raising the disbursement rate in selected on-going projects.

(d) the focus will be on actions which will have a significant impact between now and the end of 1984.

Through this special effort, the Bank hopes also to persuade other aid donors and agencies to expand their assistance, and where appropriate to encourage commercial banks to sustain appropriate levels of net lending.

4. The remainder of this paper presents a diagnosis of the current world economic situation and its impact on various countries and country groups, and suggests the likely future course of the current crisis. It then presents the Special Action Program we are proposing to undertake, describes mechanisms for accelerating resource transfers and meeting countries current exceptional

needs. It also traces the implications for Bank1/ operational policies and financial flows.

II. The Current World Economic Situation and Problems to be Met

5. The current world economic recession is exceptional i n its severity andits duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Of special concern has been the adverse impact of counter-inflation policies in the industrialized countries which, by slowing growth and sustaining high interest rates, have curtailed the growth of the developing countries.

6. During the 1974-75 world economic recession, a large amount of private capital was quickly recycled through the banking system to the oil importing developing countries, and official capital flows were increased. Thus, these countries were largely able to maintain their pace of development until OECD growth recovered. Growth in the developed countries recovered by 1976, and current account deficits of the oil importing developing countries declined from a peak of about 5% of collective GNP, to about 2%, or to a level roughly equal to average pre-1973 experience. Rapid growth in the oil exporting countries helped maintain the demand for exports from developing countries. Sustained growth in the developing countries helped advance the process of adjustment to higher energy prices.

1/ The recession has also reduced the rate of disbursements on IFC supported projects. Since the IFC serves essentially as a catalyst in financing, it is also limited in the extent to which it can affect real resource transfers to its borrowers. But within these limits, the IFC has also been looking for specific opportunities to promote export oriented and/or quick disbursing projects and is considering ways of helping countries in its portfolio that are in difficulty.

7. Since 1980, current account deficits have averaged about 5% of GNP for the oil importing developing countries as a group, and began to be reduced only slightly in 1982. Their current account deficits are likely to be significantly smaller in 1983 as growth slows down further. This reflects not a successful adjustment process, but the reluctance or inability of lenders, especially the commercial banks, to increase their exposure in countries made less creditworthy by a large accumulation of debt and a stagnant world economy. Unlike the post 1974-75 recovery period, there has been no significant real increase in official assistance, and the oil exporting countries have also experienced significant problems causing them to reduce growth and their demand for imports. Moreover, the late-1979 and early-1980 oil price increases added to already existing inflationary pressures in many developed countries. In an attempt to control this inflation, some of the larger countries adopted deflationary policies which slowed growth and raised interest rates. Thus, the present recession has been unusual in that record high real interest added to the adjustment burden of the developing countries. Up to 1978 most developng countries' debt was contracted at fixed interest rates, so inflation lowered their real debt burden. The move to variable interest rate borrowing eliminated this windfall gain and added a degree of instability to the system.

8. Efforts to restore growth in the OECD countries now appears to be more difficult than initially appreciated. While OECD growth rates fell from 3.6% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. Current OECD forecasts, however, have been revised downwards and show only a weak recovery in the second half of 1982. As a result, overall OECD growth is expected to be negative for 1982 as a whole (-.2%), with uncertainty aobut recovery in 1983

(1.8% now forecast compared to 3.0% a year ago). Indeed recovery may be delayed to 1984. We consider it prudent to plan Bank actions on the expectation of a delayed recovery.

Table 1: Changes in Real GDP 1973-82

(percent)

	Industrial Countries	Developing Countries	
		Oil Exporters a/	Net Oil Importers b/
1963-72	4.7	8.4	5.8
1973	6.2	10.0	5.8
1974	0.6	7.4	5.4
1975	-0.5	7.7	3.5
1976	4.9	10.5	5.8
1977	4.0	5.2	5.4
1978	4.0	3.2	5.3
1979	3.6	4.2	4.2
1980	1.3	0.3	3.9
1981	1.2	-3.2	1.7
1982 (est.)	[-0.2]	[1.0]	[1.5]

Note: Through 1981 IMF/WEO data and country classification; 1982 estimated from OECD, EPD data.

a/ Includes IMF's oil exporters (69%) and net oil exporters (31%).
b/ Excludes China - IMF grouping.

9. The decline in the level of output in the industrial countries has resulted in a slowdown in the growth of world trade. The 1982 GATT Annual Report shows an unchanged volume of trade during 1981. This trend is likely to continue through 1982. Imports by the OECD countries have declined in volume terms during the past three years. The most dramatic changes, however, have been in the OPEC countries, where export volumes have declined by an average of about 15% per year during 1980-82 because of lower petroleum consumption by the industrial countries. This reflects both a short-term drop in demand as a result of higher prices, as well as the longer-term impact of

greater conservation measures and the reduced demand resulting from lower growth rates of output. Newly industrialized countries (NICs) have been faced not only with slack demand, but as unemployment has risen in developed countries, there has been growing pressure for protectionist measures often aimed at imports from developing countries. As a result, the real growth of exports of the developing countries is expected to be only about 2% in 1982, and perhaps even lower in 1983.

10. The current slump in the world economy has led to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. The non-oil developing countries have benefitted recently from the deflationary impact of lower oil prices, reduced inflation in manufactured goods prices, and lower interest rates. But these effects have been more than offset by steep declines in primary commodity prices. The Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 4% in 1980-81, and about 2% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. The cumulative change in their terms of trade between 1979 and 1982 amounts to an adverse shift of close to 25%.

11. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' imports have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three years running. Less severely

affected have been the oil exporting countries, which have generally been able to maintain import growth despite falling export volume, due to improving terms of trade and greater access to capital markets. Even these countries began to feel the pinch in 1982, when the terms of trade began to move against them, and access to capital markets became more uncertain for some.

Table 2: Changes in Terms of Trade

	1979	1980	1982	1982 (est.)	1983 (est.)
Industrial Countries	-2.6	-7.6	-0.7	1.5	[1.0]
Developing Countries					
Oil Exporting	28.6	41.6	12.2	-5.4	[-2.0]
Non-Oil	-0.2	-4.4	-2.2	-1.9	[-2.0]
Low-Income	-7.4	-15.0	-8.3	-2.8	[-2.0]

Source: 1979-82 IMF/WEO; 1983 - estimate based on OECD.

12. During the initial years of the recession, the developing countries, particularly the oil exporters and NICs, were able partially to offset adverse external events by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from about $350 billion in 1979 to about $550 billion in 1982. Only $60 billion of the increase came from official sources, the rest from private sources, chiefly commercial banks. In the early years, the commercial banks were keen to continue to recycle OPEC surpluses. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens. This was particularly true of the oil exporters and NICs, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest

terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened further in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico).

13. The initial threat of a world financial crisis caused by a simultaneous default of the developing countries and a collapse of the major money center banks seems to be passing. Policy reforms, inter-country and IMF assistance are easing problems for the major debtors, although some problems remain. Nevertheless, the aftermath of the "debt crisis" of 1982 is to make the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment. Developing countries are again faced with the prospect of reducing imports, investment, and the pace of overall development.

Country Experience: Macroeconomic Impact

14. While there is considerable variation in the impact of the international situation on individual countries, there are also broad similarities. Most countries have experienced, in varying degrees:

- falling or stagnant export earnings while debt service payments have been rising;
- import cutbacks because of reduced borrowing opportunities and foreign exchange reserves;
- falling government revenues, due to declining economic activity, the stagnation in trade, the erosion of taxes by inflation, and the difficulty of imposing new taxes during a recession;
- cutbacks in investment plans and slowdown of on-going projects because of shortages of domestic and external funds;

- shortages of funds to finance the operation and maintenance of existing facilities;

15. The severity of these difficulties depends on many factors. The most important are the quality of economic management, the level of development, and the degree of openness of the economy.

16. Quality of economic management: As a result of poor past economic management and investment decisions, and excessive borrowing, some countries such as Sudan, Turkey, Bolivia and Zaire, were experiencing very difficult problems before the current adverse international situation. For these countries, current events either worsened the situation or hampered adjustment. A second group of countries, such as Thailand, Malaysia and the Ivory Coast, had been progressing with reasonable efficiency but still have had to face a reduction in growth and investment because of the shortage of foreign exchange and foreign capital flow.

17. Level of economic development: There are major differences between the low-income countries, which are highly dependent on primary goods exports, and the middle-income countries, which depend more on manufactured exports and private capital flows. Typical of the problems encountered in the low-income countries is the situation of Bangladesh. Between FY80 and FY82, exports grew by 15% in volume terms, but declined 26% in terms of import purchasing power because of falling prices for exports, particularly jute, and higher prices for imports. Unable to offset the loss of export revenues by external borrowing, Bangladesh has had to cut imports by 15% in real terms, and it is expected that a further cut of about 7% will be required through FY85 (over the FY82 level). These adverse external events have combined with poor crops, industrial stagnation, inadequate private sector investment and other factors to produce a decline in per capita income in FY82.

18. Togo is another example of a low-income country in serious difficulties, but one whose problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and badly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by a further 15% in real terms as part of a further adjustment program.

19. Many middle income countries which had previously relied heavily on private foreign capital have faced serious difficulties as commercial banks have attempted to reduce their overseas exposure. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms, over the last three years, and the bulk of the present investment program is for completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast's creditworthiness and access to private capital, while its high per capita income generally precludes it from concessional assistance. Borrowings from the IMF already total 380% of quota.

20. Openness of the economy: Larger, less open economies, such as China and India, have tended to be more insulated from the international environment and have performed relatively well in recent years. The smaller, more open economies which have taken advantage of the opportunities offered by and are now more dependent on foreign trade have, paradoxically, suffered the most. Barbados, for instance, which grew at an average rate of 5% during 1976-80, has had two consecutive years of negative growth largely because of declining

sugar production and prices, declining tourist arrivals, and lower manufacturing output. Smaller, more open economies are also dependent on their foreign trade sector for government revenues. In Liberia, for instance, taxes on foreign trade constitute about 40% of current revenues, and about 70% in Togo. While the more open economies with neutral trade regimes are likely to be able to adjust more rapidly than countries with protective regimes, their greater exposure to cyclical trends is causing more severe difficulties of adjustment at present.

21. Country Experience: the impact on Bank-financed projects: Bank assisted projects have not been immune from the pressures on other components of governments' investment programs. A recent Bank report on project implementation notes that 36% of all Bank/IDA projects now suffer from financial problems, largely related to the inability of borrowers to provide adequate counterpart funds. As a result of this and other factors, the shortfall of overall project disbursements below expectations has risen from 12% in FY80 to 22% in FY82.

See revised Overview memo

22. Problems induced by the current crisis are particularly apparent in many African countries, such as Kenya, Zambia, Nigeria and Madagascar. Work on the Bura Irrigation and Settlement project in Kenya, for instance, has virtually ground to a halt because of shortage of government funds to finish project works. The initial appraisal called for total expenditures of $98 million in 19 prices of which the Bank and other donors were to finance $77 million. Cost overruns largely due to delays because of inavailability of counterpart funds coupled with inflation have increased the cost of the project to $190 million in 1982 prices, and all the additional costs have had to be borne by the government. Because of escalating costs and budgetary shortages, the project agency cannot pay contractors for work already

poor example; we advised Government not to go ahead with project almost at the beginning! Eco rate of return became very low!

III. Bank Response - An Interim Program 1983-84

A. Scope and Objectives:

25. The review of country experiences presented above illustrates some of the costs the developing countries face in curtailing their expenditures and levels of economic activity to meet the current exceptional circumstances. At the macroeconomic level, growth has been sacrificed, investment programs have been cut, savings have been eroded and external indebtedness has been increased in an endeavor to shield domestic economies from even deeper cuts; at the project level, benefits are being lost from completed projects because of a lack of funds for maintenance or operation, project completions are being delayed causing increases in real project costs as well as the cost of foregone benefits, and new project starts are being postponed because governments are unwilling or unable to provide counterpart funds for new ventures.

26. Considering these exceptional circumstances, the Bank should take whatever steps it can to lessen the impact of the international situation on its developing member countries. To help maintain the momentum of their development programs we are therefore proposing to undertake a Special Action Program over the next 18-24 months. The most important features of the Special Action Program are:

(a) eligible countries will be those considered to be seriously affected by the adverse external environment, and which are making a determined effort to adjust appropriately to current circumstances;

(b) a number of changes in Bank practices and procedures are recommended; these do not entail a lowering of standards in any way, but would permit the Bnak to respond more flexibly to country needs the recommended changes are not fundamentally new policy departures, but rather are intended to encourage greater use of practices and mechanisms used sparingly in the past;

(c) the Special Action Program is expected to have the result of increaseing the Bank's resource transfers to eligible countries by about [___] billion in the 1983-84; while no change in the level of IDA commitments is possible, it may be possible to advance some IBRD operations from the later years of the planning cycle, however, the emphasis will be on shifting the composition of new lending to favor quicker disbursing loans, and operations more responsive to the exceptional counter-cyclical needs of many borrowers, as well as raising the rate of disbursement of selected on-going projects.

27. The Bank's ability to play a counter-cyclical role is constrained by the nature of structure and operations. In the short-run, the level of resources available for commitment cannot be changed except marginally for both IBRD, where the need for prudent financial policies precludes an over rapid expansion, and IDA where the nature of the replenishment process sets a cap on commitment levels. Moreover the Bank's operations are not generally suited to providing rapid injections of funds. Project preparation necessarily takes time if the quality of investments is to be preserved; the pace of disbursements is tied to the process of project implementation which typically takes several years to complete; and new financing is tied to the launching of new projects - a process that is close to a standstill in many of

the countries most in need of Bank support. It is important therefore to emphasize that the Bank is not seeking to provide short counter-cyclical financing for a substantial portion of countries' total deficits, but has the more modest but crucial objective of helping countries maintain their higher priority development activities investments during a period of exceptional difficulty.

why investments? why not more emphasis on operation, maintenance?

28. The broadening of non-project lending to include structural adjustment lending since 1979 has been a valuable if selective tool in helping the Bank to make a rapid response to country adjustment efforts, . It has enabled the Bank to support thirteen countries meeting rigorous performance criteria with substantial amounts of quick disbursing assistance, while providing an action-oriented setting for country policy dialogues on economic and sectoral policies. While an increase in structural adjustment lending would be warranted in the current circumstances, and indeed forms an important part of the Special Action Program, it is not a suitable instrument for support to all countries as is demonstrated by its relatively restricted use in the past. Structural adjustment lending has as a central objective the restructuring of the internal economy during a finite period while maintaining the flow of external resources required for long-term growth. The current crisis, exacerbating the need for structural change on the part of some borrowers - is also a cyclical phenomenon, characterized by the need for selective cutbacks in investment, steps to mobilize increased domestic resources, and a need for a temporary increase in external resources to sustain development. The Special Action program is intended to help protect priority sectors, activities and projects as well as providing a modest amount of additional resources at a critical period.

But cycles have occurred in the past; what makes it special now?

29. Within the constraints set by the Bank's structure and operations, we are proposing to help support the investment momentum of countries through an accelerated transfers of resources, and have considered the use of a range of instruments more responsive to current needs. We emphasize that all these instruments are already in use as part of the Bank's operations and will not therefore involve fundamental policy departures. Nor will there be any relaxation of the standards maintained in the past, either in terms of macro economic and sectoral policy conditionality, creditworthiness, and portfolio quality, or of project related conditions.

not only, also recurrent expenditures

para. 39 clearly is fundamental policy departure; also para 42 45 etc!

30. Among the means we have identifed for accelerating resource transfer to members are:

(a) a shift in the composition of the Bank's lending in favor of faster disbursing projects including non-project lending; and

How?

(b) ensuring that the types of new projects financed, and their speed of execution, reflect the current exceptional development needs of borrowers;

what exactly does this imply?

(c) advancing commitments from later years in the planning cycle to the next two calendar years, though overall resource constraints suggest that this will have to be done within the presently planned overall level of resources;

additional projects? larger financing of projects? Not clear implication for capital increase? How?

(d) selective acceleration of disbursements under existing loan commitments and greater use of supplemental loans for project completion;

What does that mean? More cost over-run financing?

31. The amount of additional transfers that can be achieved by the above means is limited. We estimate that the maximum amount of the additional transfer might be [circa $2 billion] in the next two years. Relative to the overall reduction in members' resources, this amount is small, though we would

hope that by its special efforts, the Bank might also persuade other aid donors and agencies to expand their assistance, and where justifed influence commercial banks to restore past levels of net lending. But to enable the Bank to make a more significant financial transfer, an increase in the total resources of the Bank and especially IDA will be necessary.

32. Of all the countries seriously affected by the current international recession, IDA countries are most in need. Many IDA countries rely on a few major sources of export earnings that have contracted in recent years, all are poor and have little or no access to international capital markets. Moreover the ability of many IDA countries to come to grips with the complex problems of a sudden sharp adjustment is weakened by the quality of their administrative structures and small supply of expertise. The present limitations on IDA resources do not permit a response involving higher commitment levels. Moreover the applicability of many of the mechanisms discussed in paras. 35-47 below is less than for Bank borrowers. Hence IDA will only be able to meet its responsibilities to the poorest countries if it can be sure of a large and growing resource base.

33. The volume of resource transfers that the Bank can provide relative to overall needs emphasizes the need for appropriate policy responses by countries to resolve their own problems as well as maintain the confidence of commercial banks and other external agencies. Hence, we would plan to offer additional support in the form of technical assistance focussed on the problems of policy redesign, investment programming, incentive systems, and borrowing and domestic resource mobilization policies. We intend to continue providing such assistance by financing technical assistance directly and through country economic work; currently programmed economic work strongly reflects this priority.

T.A. disburses very slowly (See Overview para 22); Countries don't want it on the scale we are offering

34. While virtually all countries have been affected by the current recession, we are not proposing that the Special Action Program should apply indiscriminately to all countries. Bank financial and staff resources are limited and should be directed towards those countires in which the Bank, relative to other lenders, is most likely to have a constructive impact. Country eligibility for support through the Special Action program would be determined according to the following criteria:

(a) Countries seriously affected by the current recession, as identifed through the Bank's on-going economic work;

(b) Countries where additional resource transfers are likely to have an appreciable impact in solving their problems, hence assistance would tend to be to countries where access to alternative financing is least readily available, where the Bank can have a strong demonstration effect on others, or where he Bank's technical advice is likely to take on increased importance because of borrower receptivity; and

Given IDA limitations, ~~Bank~~ credit-worthiness limitations: your proposal will only help Africa

(c) Countries that have adopted policies conducive to resolving or at least alleviating their own difficulties. This would typically involve attempts to set appropriate investment priorites within a reduced program, to ensure that incentive systems are working effectively, and to mobilize additional domestic and external resources.

B. Mechanisms and Implications for Bank Policies and Procedures

35. A number of possible mechanisms have been identified for increasing resource transfers to member countries and to enable them to complete high priority projects and continue productive development programs. None involve the lowering of standards. The mechanisms would vary between countries

because of the need to adapt responses to different circumstances. This islikely to be particularly the case in the least developed economies, where our traditional procedures are perhaps the least effective in effecting the required transfers. The most important of these mechanisms, and the required changes in current practices are discussed below. why? ?

Program

36. Non-project lending. Because it is fast disbursing, expanded non-project lending offers a good means for increasing resource transfers within the target period. In the near future we believe that a growing number of countries are likely to adopt, by choice or necessity, policy reforms that will satisfy the performance criteria we normally expect for structural adjustment or program lending. In this event the Bank's ability to repond will be inhibited by the guideline that such lending should not exceed 10% of the Bank's lending program. Although less definite than the overall ceiling, the view that non-project lending should not exceed about one third of the lending program of a single country is now also becoming established. 1/

- are the new criteria not also "somewhat arbitrary"??

37. Easing these somewhat arbitrary limits on non-project lending would provide a major vehicle for responding to the current exceptional situation and enable the Bank to help meet the needs of our clients for quicker disbursing assistance. While we anticipate a modest additional volume of structural adjustment lending, we also envisage greater use of import program loans than in the past in those countries where low levels of new investment

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1/ These guidelines are an elaboration of Article III, Section 4 (vii) of the Bank's Articles of Agreement, which states that "Loans shall, except in special circumstances, be for the purpose of specific projects." This provision was a response to excessive balance of payments lending in the pre-war period which had led to defaults. Project lending based on sound financial criteria was to be the main vehicle to minimize the risks of default.

and low savings rates, make non-project endign the appropriate vehicel for support of a satisfactorily-designed development effort. The fact that not all countries meet this criterion and the difficulty of establishing a satisfactory policy framework in those that do (given that no changes in our performance criteria are proposed), will set practical limits on such lending, even in the absence of a specific guideline. We therefore recommend that the current informal ceilings on both the overall and country limits on non-project lending be eased and that we maintain a flexible position for the foreseeable future. We also propose to restrict the tranching of future structural adjustment loans to cases where the scope and size of the loan has been determined in anticipation of, rather than in response to, structural adjustment actions.

Is that a new policy?

38. We also considered the possibility of expanding sector lending, which formally is considered project lending not subject to the above limits. However, sector lending is limited by strict conditions (see OMS 1.19), and disbursements on the few existing loans is slow. Since we are proposing no change in conditionality for such loans no rapid increase in such lending is anticipated. The following table shows typical disbursement profiles for selected loan types.

Purpose of table is not clear. Are we to shift to sectors disbursing more quickly?

Disbursement Profiles for Selected Loan Types

O.K. for program loans, but > doubt data for SALs

Loan Type	Percentage of loan disbursed after: one year	two years	three years
Structural Adjustment/ program loans	63.0	100.0	..
Agriculture	2.5	11.0	24.7
(Agricultural sector loans)	(2.1)	(9.8)	(23.0)
Education	1.8	7.4	17.6
IDF 3.6 21.3	46.7		
Industry 7.2	25.5	50.0	
(Industry sector loans)	(6.3)	(26.1)	(54.4)
Power 4.6	19.8	42.5	
Transportation	5.0	20.2	41.7
Aggregate - all projects	3.6	14.8	32.2

what are these?

what are these?

?

for what? cost overruns?

39. Supplemental financing. By its reluctance to offer supplemental loans, the Bank has in general encouraged stricter financial discipline by borrowers, and increased borrowers' incentives to seek other sources of funds, both domestic and foreign. The few supplemental loans that the Bank has made have typically been justified by major changes in project scope. In the current circumstances, the availability of both foreign and domestic resources is so constrained in many member countries that the execution of high priority projects is increasingly threatened not by lax financial discipline but by overall shortages of both foreign and local funds or by cost escalation beyond the control of project authorities. We propose therefore that the Bank should be more willing to help complete the financing of such projects in cases where governments have made an effort to reorder priorities and to mobilize additional domestic resources. Where a number of projects in the same country are all affected by the same problems we also envisage the possibility of a consolidated supplementary loan, to finance a greater proportion of costs or cost overruns on a group of loans. In all cases of supplementary financing

Not complete statement of policy

?

Major new policy!

Still major problems: countries are not reducing investment programs realistically and are starting too many new projects.

for ongoing projects, these would need to be justified by a satisfactory rate of return on both total and incremental funds, and a demonstration that the projects concerned still deserve high priority. Where possible, the Bank will use supplemental lending to encourage other lenders to participate through cofinancing.

40. Increasing the share of project costs financed by the Bank.

Decisions about the Bank's share of project costs have been guided by a number of considerations: (a) it should be sufficiently large so as to ensure adequate Bank involvement, but not so large so as to discourage borrower responsibility or incentives to raise other resources, both domestic and foreign; (b) local currency financing should be an exception as provided by the Bank's Articles of Agreement (Article IV, Section 3); (c)it should take account of the capability of member countries, particularly the poorest countries, to finance their portion of the project; and (d) it should acknowledge the need to support innovative projects and socially desirable sectors. In practice, the application of these guidelines have been flexible, although with the requirement to demonstrate need when financing a higher than normal share of project costs, (i.e. more than about 35-40% of total costs, or the foreign exchange costs, whichever is greater).

In Africa, we have generally financed more than these criteria suggest!

41. In arguing for flexibility in local cost financing, we note that resources are fungible, and that the level of Bank of lending for each country is based on its overall creditworthiness, its needs, and performance. The means by which these funds are transfered is a matter of lending strategy. For example, the Bank might finance less than the full foreign exchange cost of projects in middle income countries to provide opportunities for cofinacing; alternatively, the Bank might finance local costs in other countries in order not to skew project selection in favor of foreign exchange

against?

intensive projects, or to provide foreign exchange that is not project-tied in countries with acute balance of payments difficulties. Practical considerations of government budgeting procedures may also dictate the Bank financing a very large share of priority projects in order to avoid delays in availability of counterpart funds.

Not clear

?

42. We propose ,ithin the currently approved lending programs, a cost sharing strategy will be applied in each eligible country to reconcile the objectives of helping governments reorder investment priorities and complete or maintain high priority investments while promoting other foreign and domestic financing. Because the impact on resource transfers is greatest for changes affecting existing projects, these guidelines will selectively apply to these as well. Among the mechanisms we intend to apply are: (a) ensuring that financing covers the full foreign exchange costs (including ~~particularly~~ interest during construction) in cases where less than full financing has been provided in the past; (b) raising the disbursement percentages under existing loans, either in conjunction with or in anticipation of supplemental loans, or as a way of transfering resources arising from cost savings; (c) where justified, reducing the scope of ongoing projects but retaining the entire amount of Bank financing so that the Bank effectively covers a higher percentage share, (d) financing up to 50% of local costs, if considered appropriate, regardless of income levels; and (e) financing up to 90% of the cost of projects in low income countries.

retroactively? Could have tremendous implications e.g. Brazil steel mills

We do that now

You might indicate that this will reduce the number of new projects to be financed in most countries

43. Development finance companies. With some exceptions, loans to DFCs have been limited to financing the foreign exchange cost of equipment imported by sub-borrowers for new projects or expansions (OMS 3.73). The financing of working capital and equity, and local cost financing have occasionally been

?

We have done it in recent years in Africa, e.g. Zaire allowed in special circumstances. However, these are regarded as exceptional instruments to be used sparingly. Consistent with the approach to cost sharing, we propose to permit the financing of non-incremental working capital and a reasonable share of local costs in selective DFC organizations as well. In addition, consideration will be given to allowing DFCs to finance companies' rehabilitation programs, where supported by well conceived plans, with loan funds used to finance such items as inputs or spare parts.

We have already done this

44. Rehabilitation, operations and maintenance projects. Many of the poorer countries in Africa and South Asia face problems of a deteriorating capital stock and insufficient funds to operate and maintain new investments. In order to help governments maintain or achieve potential benefits from past investments, we propose to increase lending for rehabilitation, operations and maintenance projects, and to explore new forms of financing recurrent expenditures of demonstrated developmental importance. in projects. The expansion of rehabilitation and maintenance projects, is not constrained by current policy guidelines, and will be encouraged, in cases where they finance spare parts, technical assistance or raw materials and other inputs aimed at improving productivity and overall performance.

45. The expanded financing of recurrent expenses does, however, raise policy issues. Apart from non-project or sector loans, the Bank finances recurrent expenses only if they can be construed as building "capital" broadly defined: for example, the cost of teachers while they are at teacher training colleges may be financed but not the cost while they are teaching in schools, incremental recurrent expenses connected with investments in human capital (such as education and family planning) are often financed, as are incremental expenses related to investments (for example, incremental working capital). Underlying this policy is the concern that long term funds should not be used to finance

That's not really the reason for the policy short term needs, which do not contribute to the growth of output in the longer-term and hence the ability to repay.

46. There are, however, several factors in the current situation, which support reconsideration of this policy, and its relaxation in several cases. In a number of countries, the required retrenchment has led to an imbalance between investment programs, (perhaps set in motion in better times and now difficult to alter quickly), and the recurrent funds needed to operate them. This is particularly accute in the smaller economies and Africa where external assistance is almost exclusively for new capital projects. The resulting deterioration and or reduced capacity utilization of the existing capital stock are convincing arguments for temporarily financing recurrent expenditures in selected countries to correct this imbalance. The conditions for such lending, would include limiting it to especially needy countries where it is essential to prevent deterioration of the capital base, or where it is needed to correct short to medium term imbalances which are not expected to be permanent. Such lending might form a component of new projects in qualifying countries, or be extended to a group of existing projects in selected sectors.

We have warned some countries for years!

logic and clear

47. <u>Cancellation of loans.</u> The changed economic situation and the need to cut back on investment programs while focussing funds on higher priority needs, has resulted in a number of projects whose execution should be deferred and funds released for higher priority needs. This is particularly true for the smaller African economies where the degrees of freedom available to decision makers are few. However, since the cancelling of a Bank loan results in a net loss of funds for a country, there is considerable disincentive to taking such an action. This may explain why no region (country?) has yet proposed major cancellations. This could be partially corrected by ensuring that previously

programmed amounts for a country are increased by the total amount of any cancellations.

C. Implications for World Bank Finances

[Tentative: to be elaborated in collaboration with Finance]

48. On the basis of current staff reviews of country creditworthiness and economic performances about [30] World Bank borrowers would meet the conditions outlined above, namely that they have been seriously affected by the current recession and are making an appropriate response in terms of adjusting their investment priorities and levels. It is on this group of countries that the Special Action Program should focus; they are likely to use effectively any additional financial resources that the World Bank can transfer in the next 18-24 months as well as policy advice from the staff of the Bank. As a rough estimate it may be possible to increase the level over the level originally planned (as of __________) to this group of Bank borrowers by $__________ during FY83 and FY84. It will also entail a net 1/ increase in the level of commitments, largely in the form of non-project loans, over the FY83-84 period. The composition of these changes in commitments and disbursements is shown in Table 4 below.

Your proposals have far-reaching consequences which need to be fully considered and discussed.

1/ Net of decreases in commitments where quicker disbursing of new projects are brought forward or introduced to substitute for slower-disbursing projects in the lending program.

Table 4

Interim Program: Increases in IBRD/IDA

Commitments and Disbursements, FY83-85

($ million)

	Committments				Disbursements				FY85 (first half)	
	FY83		FY84		FY83		FY84			
Mechanism	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
Non-project										
Supplementary loan										
Cost Sharing										
1) new project										
2) existing project										
Other a/										
TOTAL										

a/ Including ....

49. These increases in transfers as part of the Special Action Program, plus the re-deployment of staff in favor of the selected group of countries represents only a small part of the Bank's ongoing operations. Nevertheless, it is an effort that should be made because for the smaller borrowers the impact can be significant, while for the larger borrowers it can help with particular problems and serve as a demonstration effect for the country itself by providing it support for its own efforts, for other aid donors and agencies, and for the commercial banks.

THE RECESSION:

A WORLD BANK SPECIAL ACTION PROGRAM, 1983-84

Country Policy Department + Gregory and Stern.
December 30, 1982

THE RECESSION;

A WORLD BANK SPECIAL ACTION PROGRAM, 1983-84

DRAFT

December 30, 1982

The Recession:

A World Bank Special Action Program, 1983-84

I. Introduction and Summary

1. The international economy remains in the grip of an economic crisis and there is still little evidence on which to base hopes for an early recovery. ~~With few exceptions,~~ the industrial countries of Europe and North America, the newly industrialized developing countries, the lower-income countries of Africa and Asia and the major oil-exporting nations have with few exceptions, been hard hit by the recession, reflecting the growing interdependence of the world economy. The Bank's borrowers are almost all experiencing serious economic difficulties, reflected in reduced growth, or even declines, in income, and also in foreign and domestic savings. Whereas the adjustment process of 1973-74 was facilitated by the ready availability of a large volume of commercial capital on reasonable terms, as well as increased aid flows, this time there is no growth in aid, and commercial capital, when available, entails record high real interest costs. As a consequence of the squeeze in resources, many Bank borrowers are being forced to reduce both public and private recurrent and capital expenditure, delaying the completion of high priority development projects and reducing the level of maintenance of infrastructure. Bank financed projects are not immune from these pressures, ~~and~~ disbursement performance has actually deteriorated ~~as a result~~ and despite the desirability of maintaining ~~it~~ disbursement during a period of recession.

2. What can the Bank do in the face of this exceptional loss of development momentum? While the IMF and the commercial banks are major sources of

financial support in helping restoring ~~during the restoration of~~ external and internal balances, the pressing development needs of borrowing countries argue strongly for an extraordinary effort on the part of the Bank. While ~~The~~ the Bank is not well-equipped ~~primarily~~

well designed to respond speedily to the short-term liquidity ~~counter-cyclical~~ needs of its borrowers (the current ceiling on Bank commitment levels, especially IDA, and the focus of its operations on long-gestation projects are the main constraining factors) — nonetheless ~~), but~~ we consider that there is scope for such an effort. We are proposing that this effort take the form of ~~an~~ a Special Action Program of assistance over the next 18-24 months, aimed at supporting our borrowers' ~~countries'~~ own efforts to sustain their pace of development despite adverse external circumstances. The Special Action Program would achieve this through:

(a) accelerating the ~~accelerated~~ transfer of financial resources to selected borrowers to sustain ~~maintain~~ project momentum, help maintain ~~maintenance of~~ crucial infrastructure ~~,~~ and support adjustment ~~structural adjustment, and~~ policies; ~~policy change including the reordering of investment priorities;~~ ~~and~~

(b) helping maintain an appropriate level of new commitments at a time of retrenchment in the investment programs of many countries; and

(c) providing advice and guidance on implementing appropriate adjustment policies, especially the reordering of investment priorities.

3. A country-by-country and project-by-project review of the IBRD/IDA lending program has been undertaken with a view to determining more precisely the feasible content of the Special Action Program and its implications for the Bank's own finances. The design of the ~~Special Action~~ Program has been guided by the following principles:

(a) eligible countries are those which have been ~~most~~ seriously affected by the adverse external environment and which are themselves making a determined effort to undertake the difficult adjustment policy measures;

(b) any changes in Bank practices, policies or procedures to be contemplated should not entail a lowering of standards (whether macro-economic policy, sector policy or project conditionality), or lead to a weakening of portfolio quality, or create irreversible precedents for the time when a more normal international economic environment is restored;

(c) major changes in the overall levels of IBRD and IDA commitments are limited by the resource constraints ~~on each.~~ and Given the normal project cycle time lags, it is unlikely that additional conventional commitments would have a timely impact; The emphasis will thus be on shifting the composition of new lending to favor quicker disbursing loans, [on operations more responsive to the exceptional counter-cyclical needs of many borrowers,] and on raising the disbursement rate in selected on-going projects.

means?

(d) the focus will be on actions which will have a significant impact between now and the end of 1984.

Through this special effort, the Bank hopes also to persuade other aid donors and agencies to expand their assistance, and where appropriate to encourage commercial banks to sustain appropriate levels of net lending.

4. The remainder of this paper presents a diagnosis of the current world economic situation and its impact on various countries and country groups, and suggests the likely future course of the current crisis. It then presents the Special Action Program we are proposing to undertake, describes mechanisms for accelerating resource transfers and meeting countries current exceptional

needs. It also traces the implications for Bank1/ operational policies and financial flows.

II. The Current World Economic Situation and Problems to be Met

5. The current world economic recession is exceptional i n its severity andits duration. World trade and production have stagnated for longer than any other period since the Bank started operations. Of special concern has been the adverse impact of counter-inflation policies in the industrialized countries which, by slowing growth and sustaining high interest rates, have curtailed the growth of the developing countries.

6. During the 1974-75 world economic recession, a large amount of private capital was quickly recycled through the banking system to the oil importing developing countries, and official capital flows were increased. Thus, these countries were largely able to maintain their pace of development until OECD growth recovered. Growth in the developed countries recovered by 1976, and current account deficits of the oil importing developing countries declined from a peak of about 5% of collective GNP, to about 2%, or to a level roughly equal to average pre-1973 experience. Rapid growth in the oil exporting countries helped maintain the demand for exports from developing countries. Sustained growth in the developing countries helped advance the process of adjustment to higher energy prices.

1/ The recession has also reduced the rate of disbursements on IFC supported projects. Since the IFC serves essentially as a catalyst in financing, it is also limited in the extent to which it can affect real resource transfers to its borrowers. But within these limits, the IFC has also been looking for specific opportunities to promote export oriented and/or quick disbursing projects and is considering ways of helping countries in its portfolio that are in difficulty.

7. Since 1980, current account deficits have averaged about 5% of GNP for the oil importing developing countries as a group, and began to be reduced only slightly in 1982. Their current account deficits are likely to be significantly smaller in 1983 as growth slows down further. This reflects not a successful adjustment process, but the reluctance or inability of lenders, especially the commercial banks, to increase their exposure in countries made less creditworthy by a large accumulation of debt and a stagnant world economy. Unlike the post 1974-75 recovery period, there has been no significant real increase in official assistance, and the oil exporting countries have also experienced significant problems causing them to reduce growth and their demand for imports. Moreover, the late-1979 and early-1980 oil price increases added to already existing inflationary pressures in many developed countries. In an attempt to control this inflation, some of the larger countries adopted deflationary policies which slowed growth and raised interest rates. Thus, the present recession has been unusual in that record high real interest added to the adjustment burden of the developing countries. Up to 1978 most developng countries' debt was contracted at fixed interest rates, so inflation lowered their real debt burden. The move to variable interest rate borrowing eliminated this windfall gain and added a degree of instability to the system.

8. Efforts to restore growth in the OECD countries now appear~~s~~ to be more difficult than initially appreciated. While OECD growth rates fell from 3.6% in 1979 to 1.3% in 1980 and 1.2% in 1981, it was expected that there would be a strong revival in the second half of 1982. Current OECD forecasts, however, have been revised downwards and show only a weak recovery in the second half of 1982. As a result, overall OECD growth is expected to be negative for 1982 as a whole (-.2%), with uncertainty aobut recovery in 1983

(1.8% now forecast compared to 3.0% a year ago). Indeed recovery may be delayed to 1984. We consider it prudent to plan Bank actions on the expectation of a delayed recovery.

Table 1: Changes in Real GDP 1973-82

(percent)

	Industrial Countries	Developing Countries: Oil Exporters a/	Developing Countries: Net Oil Importers b/
1963-72	4.7	8.4	5.8
1973	6.2	10.0	5.8
1974	0.6	7.4	5.4
1975	-0.5	7.7	3.5
1976	4.9	10.5	5.8
1977	4.0	5.2	5.4
1978	4.0	3.2	5.3
1979	3.6	4.2	4.2
1980	1.3	0.3	3.9
1981	1.2	-3.2	1.7
1982 (est.)	[-0.2]	[1.0]	[1.5]

Note: Through 1981 IMF/WEO data and country classification; 1982 estimated from OECD, EPD data.

a/ Includes IMF's net oil exporter sub-group of non-oil developing countries. ~~oil exporters (69%) and net oil exporters (31%).~~
b/ Excludes China. ~~- IMF grouping.~~

9. The decline in the level of output in the industrial countries has resulted in a slowdown in the growth of world trade. The 1982 GATT Annual Report shows an unchanged volume of trade during 1981. This trend is likely to continue through 1982. Imports by the OECD countries have declined in volume terms during the past three years. The most dramatic changes, however, have been in the OPEC countries, where export volumes have declined by an average of about 15% per year during 1980-82 because of lower petroleum consumption by the industrial countries. This reflects both a short-term drop in demand as a result of higher prices, as well as the longer-term impact of

greater conservation measures and the reduced demand resulting from lower growth rates of output. Newly industrialized countries (NICs) have been faced not only with slack demand, but as unemployment has risen in developed countries, there has been growing pressure for protectionist measures often aimed at imports from developing countries. As a result, the real growth of exports of the developing countries is expected to be only about 2% in 1982, and perhaps even lower in 1983.

10. The current slump in the world economy has led to lower growth of exports from the oil importing developing countries, but also a simultaneous worsening of the terms of trade. The non-oil developing countries have benefitted recently from the deflationary impact of lower oil prices, reduced inflation in manufactured goods prices, and lower interest rates. But these effects have been more than offset by steep declines in primary commodity prices. The Bank's overall index of 33 commodity prices, for instance, shows a 25% drop in nominal terms between 1980 and 1982, with the most dramatic changes occurring in prices received for sugar (-69%), cocoa (-32%), and copper (-32%). The overall terms of trade for the non-oil countries declined over 4% in 1980-81, and about 2% each in the years 1981 and 1982 (see Table 2). The low-income countries have been particularly hard hit. The cumulative change in their terms of trade between 1979 and 1982 amounts to an adverse shift of close to 25%.

11. Declining terms of trade and slower growth in exports have necessitated reductions in developing countries' import growth. Compared with the average of over 6% during the 1970s, non-oil developing countries' imports have grown at little more than 2% per year during the past three years. Again, the most seriously affected have been the low-income countries, which have had to reduce import levels for three years running. Less severely

affected have been the oil exporting countries, which have generally been able to maintain import growth despite falling export volume, due to improving terms of trade and greater access to capital markets. Even these countries began to feel the pinch in 1982, when the terms of trade began to move against them, and access to capital markets became more uncertain. ~~for some~~

Table 2: Changes in Terms of Trade

	1979	1980	1982	1982 (est.)	1983 (est.)
Industrial Countries	-2.6	-7.6	-0.7	1.5	[1.0]
Developing Countries					
Oil Exporting	28.6	41.6	12.2	-5.4	[-2.0]
Non-Oil	-0.2	-4.4	-2.2	-1.9	[-2.0]
Low-Income	-7.4	-15.0	-8.3	-2.8	[-2.0]

Source: 1979-82 IMF/WEO; 1983 - estimate based on OECD.

12. During the initial years of the recession, the developing countries, particularly the oil exporters and NICs, were able partially to offset adverse external events by increased borrowing abroad. As a result, total debt outstanding of developing countries rose from about $350 billion in 1979 to about $~~550~~ 530 billion in 1982.[1] Only $60 billion of the increase came from official sources, the rest from private sources, chiefly commercial banks. In the early years, the commercial banks were keen to continue to recycle OPEC surpluses. As the recession continued longer than anticipated, however, countries which had borrowed heavily found it increasingly difficult to manage their heavy debt burdens. This was particularly true of the oil exporters and NICs, whose creditworthiness was based on expected continued growth in export earnings. The continuation of high real interest rates further increased the burden of the now sizeable portion of the debt contracted on variable interest

1/ Based on EPD data. OECD estimates the 1982 total at $626 billion but includes such countries as Spain, Saudi Arabia, Iran, Iraq and non-Bank member developing countries which are excluded from the EPD data base.

terms. In 1981, 13 countries had to undergo debt reschedulings, and the situation worsened further in 1982 with concurrent problems being experienced by those countries in which the commercial banks were most heavily exposed (Argentina, Brazil and Mexico).

13. The initial threat of a world financial crisis caused by a simultaneous default of the developing countries and a collapse of the major money center banks seems to be passing. Policy reforms, inter-country and IMF assistance are easing problems for the major debtors, although some problems remain. Nevertheless, the aftermath of the "debt crisis" of 1982 is to make the commercial banks, especially secondary and regional banks, more wary of lending to developing countries in general, and more appreciative of the kinds of risks these countries face in the international environment. Developing countries are again faced with the prospect of reducing imports, investment, and the pace of overall development.

Country Experience: Macroeconomic Impact

14. While there is considerable variation in the impact of the international situation on individual countries, there are also broad similarities. Most countries have experienced, in varying degrees:

- falling or stagnant export earnings while debt service payments have been rising;
- import cutbacks because of reduced borrowing opportunities and foreign exchange reserves;
- falling government revenues, due to declining economic activity, the stagnation in trade, the erosion of taxes by inflation, and the difficulty of imposing new taxes during a recession;
- cutbacks in investment plans and slowdown of on-going projects because of shortages of domestic and external funds;

- shortages of funds to finance the operation and maintenance of existing facilities.

15. The severity of these difficulties depends on many factors. The most important are the quality of economic management, the level of development, and the degree of openness of the economy.

~~16.~~ 15. ~~Quality of economic management:~~ As a result of poor ~~past~~ economic management and investment decisions, and excessive borrowing, in the past, some countries such as Sudan, ~~Turkey,~~ Bangladesh, Bolivia and Zaire, were experiencing very difficult problems before the current adverse international situation. For these countries, current events either worsened the situation or hampered adjustment. A second group of countries, such as Thailand, Malaysia and the Ivory Coast, had been progressing with reasonable efficiency but still have had to face a reduction in growth and investment because of ~~the shortage of~~ reduced foreign exchange earnings and access to foreign capital flow.

17. Level of economic development: There are major differences between the low-income countries, which are highly dependent on primary goods exports, and the middle-income countries, which depend more on manufactured exports and private capital flows. Typical of the problems encountered in the low-income countries is the situation of Bangladesh. Between FY80 and FY82, exports grew by 15% in volume terms, but declined 26% in terms of import purchasing power because of falling prices for exports, particularly jute, and higher prices for imports. Unable to offset the loss of export revenues by external borrowing, Bangladesh has had to cut imports by 15% in real terms, and it is expected that a further cut of about 7% will be required through FY85 (over the FY82 level). These adverse external events have combined with poor crops, industrial stagnation, inadequate private sector investment and other factors to produce a decline in per capita income in FY82.

18. Togo is another example of a low-income country in serious difficulties, but one whose problems predate the current recession. High phosphate prices in the mid-70s led it to launch a large and badly designed investment program which produced few benefits and an enormous debt burden. While debt reschedulings have helped reduce this burden, a 22% drop in phosphate earnings, combined with lower prices for coffee and cocoa exports, have worsened the situation. Debt service now constitutes 40% of export earnings and 50% of government revenues. Public investment has been cut 65% below its 1978 level, and current expenditures in 1983 will have to be reduced by a further 15% in real terms as part of a further adjustment program.

19. Many middle income countries which had previously relied heavily on private foreign capital have faced serious difficulties as commercial banks have attempted to reduce their overseas exposure. In the Ivory Coast, for instance, investment expenditures have been reduced by 40% in real terms, over the last three years, and the bulk of the present investment program is for completion of on-going projects. Lower prices for coffee and cocoa have not only lowered export earnings, but also reduced the Ivory Coast´s creditworthiness and access to private capital, while its high per capita income generally precludes it from concessional assistance. Borrowings from the IMF already total 380% of quota.

20. Openness of the economy: Larger, less open economies, such as China and India, have tended to be more insulated from the international environment and have performed relatively well in recent years. The smaller, more open economies which have taken advantage of the opportunities offered by and are now more dependent on foreign trade have, paradoxically, suffered the most. Barbados, for instance, which grew at an average rate of 5% during 1976-80, has had two consecutive years of negative growth largely because of declining

sugar production and prices, declining tourist arrivals, and lower manufacturing output. Smaller, more open economies are also dependent on their foreign trade sector for government revenues. In Liberia, for instance, taxes on foreign trade constitute about 40% of current revenues, and about 70% in Togo. While the more open economies with neutral trade regimes are likely, in time, to be able to adjust more rapidly than countries with protective regimes, they have to contend with ~~their~~ greater exposure to international cyclical trends. This exposure is currently imposing ~~is causing more~~ severe ~~difficulties of~~ adjustment challenges for this ~~category~~ group of countries ~~at present~~.

21. <u>Country Experience: the impact on Bank-financed projects:</u> Bank assisted projects have not been immune from the pressures on other components of governments' investment programs. A recent Bank report on project implementation notes that 36% of all Bank/IDA projects now suffer from financial problems, largely related to the inability of borrowers to provide adequate counterpart funds. As a result of this and other factors, the shortfall of overall project disbursements below expectations has risen from 12% in FY80 to 22% in FY82.

22. Problems induced by the current crisis are particularly apparent in many African countries, such as Kenya, Zambia, Nigeria and Madagascar. Work on the Bura Irrigation and Settlement project in Kenya, for instance, has virtually ground to a halt because of shortage of government funds to finish project works. The initial appraisal called for total expenditures of $98 million in 19 prices of which the Bank and other donors were to finance $77 million. Cost overruns largely due to delays because of inavailability of counterpart funds coupled with inflation have increased the cost of the project to $190 million in 1982 prices, and all the additional costs have had to be borne by the government. Because of escalating costs and budgetary shortages, the project agency cannot pay contractors for work already

completed. It is possible that unless the Government finds new sources of funds, the project agency will be declared bankrupt, existing staff reduced, and settlers already in the project area would be forced to leave. Thus, the value of past investment in irrigation works would be completely lost.

23. Similar problems have been encountered with the Bauchi State Agricultural Development Project in Nigeria. Counterpart funding for this project has been running at about half of the expected rate, and is barely adequate to cover recurrent costs: consequently most development works have ceased. Large amounts of earthmoving equipment previously purchased under the project are lying idle because of the lack of supplies and raw materials. Expatriate engineering staff are beginning to leave the project because of underemployment and low morale. While the Bank has taken steps to accelerate disbursements, potential benefits will continue to be foregone until adequately overall financing is assured.

24. The forced adjustments to the current world recession will also have a prolonged impact on the developing countries, particularly those Sub-Saharan African or least developed countries which have been most seriously affected. Cutbacks in investment programs will tend to shift investment priorities toward projects suitable for external financing. Particularly hard hit are projects involving proportionately more local costs, or whose benefits will accrue only in the long-term such as those in health, education and rural development - projects that are particularly effective in reaching the poor.

A Special Action Program

III. Bank Response - ~~An Interim Program~~ 1983-84

A. Scope and Objectives:

25. The review of country experiences presented above illustrates some of the costs the developing countries face in curtailing their expenditures and levels of economic activity to meet the current exceptional circumstances. At the macroeconomic level, growth has been sacrificed, investment programs have been cut, savings have been eroded and external indebtedness has been increased in an endeavor to shield domestic economies from even deeper cuts; at the project level, benefits are being lost from completed projects because of a lack of funds for maintenance or operation, project completions are being delayed causing increases in real project costs as well as the cost of foregone benefits, and new project starts are being postponed because governments are unwilling or unable to provide counterpart funds for new ventures.

26. Considering these exceptional circumstances, the Bank should take whatever steps it can to lessen the impact of the international situation on its developing member countries. To help maintain the momentum of their development programs we are therefore proposing to undertake a Special Action Program over the next 18-24 months. The most important features of the Special Action Program are:

(a) eligible countries will be those considered to be seriously affected by the adverse external environment, and which are making a determined effort to adjust appropriately to current circumstances;

(b) a number of changes in Bank practices and procedures are recommended; these do not entail a lowering of standards in any way, but would permit the Bnak to respond more flexibly to country needs the recommended changes are not fundamentally new policy departures, but rather are intended to encourage greater use of practices and mechanisms used sparingly in the past;

(c) the Special Action Program is expected to have the result of increaseing the Bank's resource transfers to eligible countries by about [___] billion in the 1983-84; while no change in the level of IDA commitments is possible, it may be possible to advance some IBRD operations from the later years of the planning cycle, however, the emphasis will be on shifting the composition of new lending to favor quicker disbursing loans, and operations more responsive to the exceptional counter-cyclical needs of many borrowers, as well as raising the rate of disbursement of selected on-going projects.

27. The Bank's ability to play a counter-cyclical role is constrained by the nature of th structure and operations. In the short-run, the level of resources available for commitment cannot be changed except marginally for both IBRD, where the need for prudent financial policies precludes an over rapid expansion, and IDA where the nature of the replenishment process sets a cap on commitment levels. Moreover the Bank's operations are not generally suited to providing rapid injections of funds. Project preparation necessarily takes time if the quality of investments is to be preserved; the pace of disbursements is tied to the process of project implementation which typically takes several years to complete; and new financing is tied to the launching of new projects - a process that is close to a standstill in many of

the countries most in need of Bank support. It is important therefore to emphasize that the Bank is not seeking to provide short counter-cyclical financing for a substantial portion of countries' total deficits, but has the more modest but crucial objective of helping countries maintain their higher priority development activities and investments during a period of exceptional difficulty.

28. The broadening of non-project lending to include structural adjustment lending since 1979 has been a valuable, if selective, tool in helping the Bank ~~to make a rapid response to~~ support country adjustment efforts, . ~~It has enabled~~ The ~~the Bank to support~~ ~~Restricted to the countries~~ For thirteen countries, ~~meeting rigorous performance criteria~~ the Bank has been able to provide ~~with~~ substantial amounts of quick disbursing assistance~~, while~~ accompanied ~~providing, an~~ by action-oriented ~~setting~~ ~~policy program~~ ~~for country~~ macro and sector policy ~~dialogues on economic and sectoral policies~~ program. While an increase in structural adjustment lending would be warranted in the current circumstances, and indeed forms an important part of the Special Action Program, it is not a suitable instrument for support to all countries as is demonstrated by its relatively restricted use in the past. Structural adjustment lending has as a central objective the restructuring of the internal economy during a finite period while maintaining the flow of external resources required for long-term growth. The current crisis, exacerbating the need for structural change on the part of some borrowers - is also a cyclical phenomenon, characterized by the need for selective cutbacks in investment, steps to mobilize increased domestic resources, and a need for a temporary increase in external resources to sustain development. The Special Action program is intended to help protect priority sectors, activities and projects as well as providing a modest amount of additional resources at a critical period.

29. Within the constraints set by the Bank's structure and operations, we are proposing to help support the investment momentum of countries ~~through an~~ by accelerate~~d~~ via the transfer~~s~~ of resources~~, and have considered the~~ through the use of a range of instruments more responsive to current needs. ~~We~~ It is to be emphasized that [almost] all these instruments are already in use as part of the Bank's operations and will not therefore involve fundamental policy departures. Nor will there be any relaxation of the standards maintained in the past, either in terms of macro economic and sectoral policy conditionality, creditworthiness, and portfolio quality, or of project related conditions.

30. Among the means we have identifed for accelerating resource transfer to members are:

(a) a shift in the composition of the Bank's lending in favor of faster disbursing projects including non-project lending; and

(b) ensuring that the types of new projects financed, and their speed of execution, reflect the current exceptional development needs of borrowers;

(c) advancing commitments from later years in the planning cycle to the next two calendar years, though overall resource constraints suggest that this will have to be done within the presently planned overall level of resources;

(d) selective acceleration of disbursements under existing loan commitments and greater use of supplemental loans for project completion;

31. The amount of additional transfers that can be achieved by the above means is limited. We estimate that the maximum amount of the additional disbursement ~~transfer~~ might be [circa $2 billion] in the next two years. Relative to the overall reduction in members' resources, this amount is small, though we would

hope that by its special efforts, the Bank might also persuade other aid donors and agencies to expand their assistance, and where justifed influence commercial banks to restore past levels of net lending. But to enable the Bank to make a more significant financial transfer, an increase in the total resources of the Bank and especially IDA will be necessary.

32. Of all the countries seriously affected by the current international recession, IDA countries are most in need. Many IDA countries rely on a few major sources of export earnings that have contracted in recent years, all are poor and have little or no access to international capital markets. Moreover the ability of many IDA countries to come to grips with the complex problems of a sudden sharp adjustment is weakened by the quality of their administrative structures and small supply of expertise. Hence The present limitations on IDA resources do not permit a response involving higher commitment levels. Moreover the applicability of many of the mechanisms discussed in paras. 35-47 below is less than for Bank borrowers. Hence IDA will only be able to meet its responsibilities to the poorest countries if it can be sure of a large and growing resource base.

yes

33. The volume of resource transfers that the Bank can provide relative to overall needs emphasizes the need for appropriate policy responses by countries to resolve their own problems as well as maintain the confidence of commercial banks and other external agencies. Hence, we would plan to offer additional support in the form of technical assistance focussed on the problems of policy redesign, investment programming, incentive systems, and borrowing and domestic resource mobilization policies. We intend to continue providing such assistance by financing technical assistance directly and through country economic work; currently programmed economic work strongly reflects this priority.

34. While ~~virtually~~ almost all ~~countries~~ Bank borrowers have been affected by the current recession, ~~we are not proposing that~~ it is not intended that the Special Action Program should apply indiscriminately to all countries. Since Bank financial and staff resources are limited ~~and~~ they should be directed towards those countires in which the Bank, relative to other lenders, is most likely to have a constructive impact. Country eligibility for support through the Special Action program would be determined according to the following criteria:

(a) Countries seriously affected by the current recession, as identifed through the Bank's on-going economic work;

(b) Countries where additional resource transfers are likely to have an appreciable impact in solving their problems, hence assistance would tend to be to countries where access to alternative financing is least readily available, where the Bank can have a strong demonstration effect on others, or where the Bank's technical advice is likely to take on increased importance because of borrower receptivity; and

yes!

(c) Countries that have adopted policies conducive to resolving or at least alleviating their own difficulties. This would typically involve attempts to set appropriate investment priorites within a reduced program, to ensure that incentive systems are working effectively, and to mobilize additional domestic and external resources.

B. Mechanisms and Implications for Bank Policies and Procedures

35. A number of possible mechanisms have been identified for increasing resource transfers to member countries and to enable them to complete high priority projects and continue productive development programs. None involve the lowering of standards. The mechanisms would vary between countries

because of the need to adapt responses to different circumstances. This islikely to be particularly the case in the least developed economies, where our traditional procedures are perhaps the least effective in effecting the required transfers. The most important of these mechanisms, and the required changes in current practices are discussed below.

36. <u>Non-project lending</u>. Because it is fast disbursing, expanded non-project lending offers a good means for increasing resource transfers within the target period. In the near future we believe that a growing number of countries are likely to adopt, by choice or necessity, policy reforms that will satisfy the performance criteria we normally expect for structural adjustment or program lending. In this event the Bank's ability to repond will be inhibited by the guideline that such lending should not exceed 10% of the Bank's lending program. Although less definite than the overall ceiling, the view that non-project lending should not exceed about one third of the lending program of a single country is now also becoming established. 1/

37. Easing these somewhat arbitrary limits on non-project lending would ~~provide a major vehicle for~~ enlarge the Bank's capacity to respond~~ing~~ to the current exceptional situation ~~and enable the Bank to help meet the needs of our~~ and help meet the needs of our clients for quicker disbursing assistance. While we anticipate a modest additional volume of structural adjustment lending, we also envisage greater use of import program loans than in the past in those countries where low levels of new investment

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1/ These guidelines are an elaboration of Article III, Section 4 (vii) of the Bank's Articles of Agreement, which states that "Loans shall, except in special circumstances, be for the purpose of specific projects." This provision was a response to excessive balance of payments lending in the pre-war period which had led to defaults. Project lending based on sound financial criteria was to be the main vehicle to minimize the risks of default.

and low savings rates, make non-project endign the appropriate vehicel for support of a satisfactorily-designed development effort. The fact that not all countries meet this criterion and the difficulty of establishing a satisfactory policy framework in those that do (given that no changes in our performance criteria are proposed), will set practical limits on such lending, even in the absence of a specific guideline. We therefore recommend that the current informal ceilings on both the overall and country limits on non-project lending be eased and that we maintain a flexible position for the foreseeable future. We also propose to restrict the tranching of future structural adjustment loans to cases where the scope and size of the loan has been determined in anticipation of, rather than in response to, structural adjustment actions.

38. We also considered the possibility of expanding sector lending, which formally is considered project lending not subject to the above limits. However, sector lending is limited by strict conditions (see OMS 1.19), and disbursements on the few existing loans is slow. Since we are proposing no change in conditionality for such loans no rapid increase in such lending is anticipated. The following table shows typical disbursement profiles for selected loan types.

Disbursement Profiles for Selected Loan Types

Loan Type	Percentage of loan disbursed after: one year	two years	three years
Structural Adjustment/ program loans	63.0	100.0	..
Agriculture	2.5	11.0	24.7
(Agricultural sector loans)	(2.1)	(9.8)	(23.0)
Education	1.8	7.4	17.6
IDF 3.6 21.3	46.7		
Industry 7.2	25.5	50.0	
(Industry sector loans)	(6.3)	(26.1)	(54.4)
Power 4.6	19.8	42.5	
Transportation	5.0	20.2	41.7
Aggregate - all projects	3.6	14.8	32.2

39. Supplemental financing. By its reluctance to offer supplemental loans, the Bank has in general encouraged stricter financial discipline by borrowers, and increased borrowers' incentives to seek other sources of funds, both domestic and foreign. The few supplemental loans that the Bank has made have typically been justified by major changes in project scope. In the current circumstances, the availability of both foreign and domestic resources is so constrained in many member countries that the execution of high priority projects is increasingly threatened not by lax financial discipline but by overall shortages of both foreign and local funds or by cost escalation beyond the control of project authorities. We propose therefore that the Bank should be more willing to help complete the financing of ~~such~~ high priority projects in cases where governments have made an effort to reorder priorities and to mobilize additional domestic resources. Where a number of projects in the same country are all affected by the same problems we also envisage the possibility of a consolidated supplementary loan, to finance a greater proportion of costs or cost overruns on a group of loans. In all cases of supplementary financing

for ongoing projects, these would need to be justified by a satisfactory rate of return on both total and incremental funds, and a demonstration that the projects concerned still deserve high priority. Where possible, the Bank will use supplemental lending to encourage other lenders to participate through cofinancing.

40. Increasing the share of project costs financed by the Bank. Decisions about the Bank's share of project costs have been guided by a number of considerations: (a) it should be sufficiently large so as to ensure adequate Bank involvement, but not so large so as to discourage borrower responsibility or incentives to raise other resources, both domestic and foreign; (b) local currency financing should be an exception as provided by the Bank's Articles of Agreement (Article IV, Section 3); (c)it should take account of the capability of member countries, particularly the poorest countries, to finance their portion of the project; and (d) it should acknowledge the need to support innovative projects and socially desirable sectors. In practice, the application of these guidelines have been flexible, although with the requirement to demonstrate need when financing a higher than normal share of project costs, (i.e. more than about 35-40% of total costs, or the foreign exchange costs, whichever is greater).

41. In arguing for flexibility in local cost financing, we note that resources are fungible, and that the level of Bank of lending for each country is based on its overall creditworthiness, its needs, and performance. The means by which these funds are transfered is a matter of lending strategy. For example, the Bank might finance less than the full foreign exchange cost of projects in middle income countries to provide opportunities for cofinacing; alternatively, the Bank might finance local costs in other countries in order not to skew project selection in favor of foreign exchange

intensive projects, or to provide foreign exchange that is not project-tied in countries with acute balance of payments difficulties. Practical considerations of government budgeting procedures may also dictate the Bank financing a very large share of priority projects in order to avoid delays in availability of counterpart funds.

42. We propose within the currently approved lending programs, a cost sharing strategy will be applied in each eligible country to reconcile the objectives of helping governments reorder investment priorities and complete or maintain high priority investments while promoting other foreign and domestic financing. Because the impact on resource transfers is greatest for changes affecting existing projects, these guidelines will selectively apply to these as well. Among the mechanisms we intend to apply are: (a) ensuring that financing covers the full foreign exchange costs (including particularly interest during construction) in cases where less than full financing has been provided in the past; (b) raising the disbursement percentages under existing loans, either in conjunction with or in anticipation of supplemental loans, or as a way of transfering resources arising from cost savings; (c) where justified, reducing the scope of ongoing projects but retaining the entire amount of Bank financing so that the Bank effectively covers a higher percentage share, (d) financing up to 50% of local costs, if considered appropriate, regardless of income levels; and (e) financing up to 90% of the cost of projects in low income countries.

43. <u>Development finance companies.</u> With some exceptions, loans to DFCs have been limited to financing the foreign exchange cost of equipment imported by sub-borrowers for new projects or expansions (OMS 3.73). The financing of working capital and equity, and local cost financing have occasionally been

allowed in special circumstances. However, these are regarded as exceptional instruments to be used sparingly. Consistent with the approach to cost sharing, we propose to permit the financing of non-incremental working capital and a reasonable share of local costs in selective DFC organizations as well. In addition, consideration will be given to allowing DFCs to finance companies' rehabilitation programs, where supported by well conceived plans, with loan funds used to finance such items as inputs or spare parts.

44. Rehabilitation, operations and maintenance projects. Many of the poorer countries in Africa and South Asia face problems of a deteriorating capital stock and insufficient funds to operate and maintain new investments. In order to help governments maintain or achieve potential benefits from past investments, we propose to increase lending for rehabilitation, operations and maintenance projects, and to explore new forms of financing recurrent expenditures of demonstrated developmental importance. in projects. The expansion of rehabilitation and maintenance projects, is not constrained by current policy guidelines, and will be encouraged, in cases where they finance spare parts, technical assistance or raw materials and other inputs aimed at improving productivity and overall performance.

45. The expanded financing of recurrent expenses does, however, raise policy issues. Apart from non-project or sector loans, the Bank finances recurrent expenses only if they can be construed as building "capital" broadly defined: for example, the cost of teachers while they are at teacher training colleges may be financed but not the cost while they are teaching in schools, recurrent expenses connected with investments in human capital (such as education and family planning) are often financed, as are incremental expenses related to investments (for example, incremental working capital). Underlying this policy is the concern that long term funds should not be used to finance

short term needs, which do not contribute to the growth of output in the longer-term and hence the ability to repay.

46. There are, however, several factors in the current situation, which support reconsideration of this policy, and its relaxation in several cases. In a number of countries, the required retrenchment has led to an imbalance between investment programs, (perhaps set in motion in better times and now difficult to alter quickly), and the recurrent funds needed to operate them. This is particularly accute in the smaller economies and in Africa where external assistance is almost exclusively for new capital projects. The resulting ~~deterioration and or reduced~~ ~~capacity~~ reduction in the full utilization of the existing capital stock are ~~convincing~~ strong arguments for temporarily financing recurrent expenditures in selected countries to correct this imbalance. The conditions for such lending, would include limiting it to especially needy countries where it is essential to prevent deterioration of the capital base, or where it is needed to correct short to medium-term imbalances which are not expected to be permanent. Such lending might form a component of new projects in qualifying countries, or be extended to a group of existing projects in selected sectors.

47. <u>Cancellation of loans.</u> The changed economic situation and the need to ~~cut back on investment programs while focussing funds on higher priority needs,~~ reorder investment priorities ~~has resulted in~~ means that ~~a number of~~ the execution of certain projects ~~whose execution~~ should be deferred and the funds released for higher priority needs. This is particularly true for the smaller African economies where the degrees of freedom available to decision makers are few. ~~However, since the~~ As far as the Bank is concerned, there is a reluctance to cancel~~ling of a~~ Bank loan ~~results~~ ~~in~~ since it in most cases entails a net loss of funds for a country,[1] ~~there is considerable disincentive to taking such an action.~~ This ~~may~~ explains why ~~no region has yet proposed~~ loan cancellations are major cancellations. This could be partially corrected by ensuring that previously

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[1] The exceptions are those countries where domestic project implementation difficulties has led to voluntary cancellations

programmed amounts for a country are increased by the total amount of any cancellations.

C. Implications for World Bank Finances

[Tentative: to be elaborated in collaboration with Finance]

48. On the basis of current staff reviews of country creditworthiness and economic performances about [30] World Bank borrowers would meet the conditions outlined above, namely that they have been seriously affected by the current recession and are making an appropriate response in terms of adjusting their investment priorities and levels. It is on this group of countries that the Special Action Program should focus; they are likely to use effectively any additional financial resources that the World Bank can transfer in the next 18-24 months as well as policy advice from the staff of the Bank. As a rough estimate it may be possible to increase the level over the level originally planned (as of _________) to this group of Bank borrowers by $_________ during FY83 and FY84. It will also entail a net 1/ increase in the level of commitments, largely in the form of non-project loans, over the FY83-84 period. The composition of these changes in commitments and disbursements is shown in Table 4 below.

1/ Net of decreases in commitments where quicker disbursing ~~of~~ new projects are brought forward or introduced to substitute for slower-disbursing projects in the lending program.

Table 4

Interim Program: Increases in IBRD/IDA

Commitments and Disbursements, FY83-85

($ million)

	Committments				Disbursements				FY85 (first half)	
	FY83		FY84		FY83		FY84			
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
Mechanism										
Non-project										
Supplementary loan										
Cost Sharing										
1) new project										
2) existing project										
Other a/										
TOTAL										

a/ Including ....

49. These increases in transfers as part of the Special Action Program, plus the re-deployment of staff in favor of the selected group of countries represents only a small part of the Bank's ongoing operations. Nevertheless, it is an effort that should be made because for the smaller borrowers the impact can be significant, while for the larger borrowers it can help with particular problems and serve as a demonstration effect for the country itself by providing it support for its own efforts, for other aid donors and agencies, and for the commercial banks.

Summary of Recommendations (Outline)

A. Bank can and should assist selected countries in responding to current crisis by:

(i) increased transfers to maintain momentum of priority investments, preseve infrastructure and assist adjustments;

(ii) maintain new commitments at time of generalized retrenchment.

B. Current performance criteria, project standards and portfolio squality to remain unchanged.

C. Following procedural/policy changes required and recommended:

(i) removing Bank and country limits on non-project lending;

(ii) greater use of supplementary loans, including consolidated supplementary loans for groups of projects;

(iii) increasing disbursement percentage on selected loans in the absence of firm funding to complete operation;

(iv) removal of a priori restrictions on cost sharing to permit more local cost financing, application of country specific cost sharing guidelines (para.   above);

(v) shift in composition of new lending to favor quicker disbursing loans more responsive to borrowers needs; and

(vi) review of Bank's administrative procedures affecting disbursement to reduce delays.

D. Financial, Budget and Staff Implications.