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Evolution of "social" projects in IDA charter

IDA came to the Bank in the form of a proposal submitted by the U.S. government in May 1959. General in nature, the proposal discussed most of the key elements relating to the future association. On the subject of IDA's field of operations, however, it remained silent. Considering the atmosphere at the time of the proposal, one wonders if this was an oversight on the part of the U.S. officials, or if it was a deliberate sidestep away from a controversial issue.

In 1959, the United States bilateral Development Loan Fund (DLF) was in effect (it lasted from 1958-61), the Inter-American Development Bank had begun operations, and there was the specter of SUNFED which called for financing of social projects. In fact, at a Staff Loan Committee (SLC) meeting held on August 11, 1959 to discuss the IDA proposal Demuth made the point clear that the IDA proposal "was not a U.S. affirmative program. It was (a) a desire to assuage Congress, and (b) a desire to keep off SUNFED. The U.S. thinking had been all on the negative side to accomplish these objectives." Demuth also noted that the U.S. "hoped by bringing everyone in on the subscriptions to stop the pressure for increasing the capital and so to keep down their contributions." (p. 4)

If, in fact the U.S. was trying to keep its subscriptions down, IDA financing of social projects would work against that desire by greatly expanding the scope of the association thereby creating pressure for larger subscriptions. This point was made clear by Knapp at the August 11 SLC meeting: "...if you accepted public health projects, for instance, it would open up pressure to increase the sum tremendously." Davidson Sommers, who spearheaded the IDA movement within the Bank, was of the opinion that "If health and additional projects were to be included, IDA would present a much bigger problem in its operations and administration." (p. 7)

Shirley Boskey was the first one to document the issue of IDA's financing of social projects, or those not "self-liquidating," in the Bank. In her July 8, 1959 discussion points paper, which was later issued to the Board in the form of a presidential memo bringing the IDA proposal to the Board's table, Boskey asked whether IDA would finance projects "which are primarily social in character and which may not be self-liquidating." (See IDA/R59-1, dated October 9, 1959.)

After the Senior Staff discussed IDA, they issued a draft position paper on the IDA proposal. (See, notes to August 11, 1959 SLC meeting.) The Bank's management maintained that while IDA would be largely concerned with financing projects that were directly productive, social projects would not be excluded. Management also preferred to avoid any reference to health and education projects in the President's memo to the Board. Subsequent discussions on September 3, 1959 revealed staff thinking that health and education projects were not be likely to be financed as foreign exchange projects. (pp. 5-6)

The notes of the September 3, 1959 SLC meeting are worth reading in full because the discussion touches on many important issues relating to the establishment and operations of IDA from the management's perspective. Knapp addresses allocation, rationing of IDA's resources and the specific problem of India. Sommers raises the issue of the Bank becoming a "supplicant" to governments for money during later replenishments. Iliff asks if IDA would lend to a country which was not creditworthy but if took the right action would become so? More to the point, Sommers notes that it would be difficult for an international institution to get embroiled in education, and the contribution could only be small and thereby have little influence. In fact, Sommers "wanted to negate the idea that IDA loans would be soft in the uneconomical project sense." Cope goes on to state that "We should give a strong hint that IDA would not lend in the social field, without excluding it." (p. 6) We see, then, that management had its own strong opinions of the efficacy and desirability of including social/nonrevenue-producing projects within its portfolio. While wanting to give the impression of flexibility, the SLC was opposed to the idea of social project lending. And so the issue was left for discussion by the Governors of the Bank at the 1959 Annual Meetings held in Washington.

It is useful at this point to examine the U.S. position on IDA. Judging from an April 28, 1959 memo outlining the timetable for IDA, the U.S. was in a hurry to enact its proposal. We recall from John's discussion in his chapter on IDA that several proposals were offered during the decade of the 1950s. Not until the New Delhi annual meetings in October 1958 was IDA formally discussed. The following May, the U.S. submitted its proposal to Bank management and in July, the proposal was forwarded to the other Governors of the Bank for discussion. According to the April timetable though, the U.S. was to hold discussions with other Part I subscribers prior to July 1, 1959. From July to the annual meetings, Bank staff was asked to prepare a draft charter which would be negotiated during the fall and submitted to government members in January 1960. The U.S. set the agenda and the Bank obediently followed orders. We should not lose sight of the fact that, effective September 16, 1959, the Bank's capital increased from \$10 to \$21 billion. It is not clear why the U.S. was so enthusiastic in charging ahead on this proposal after dragging its heels for so many years. And especially so if, as was viewed by the Bank, the U.S. was doing this for negative reasons.

At the annual meetings there many press releases of statements by Governors about the proposal. While Part I members were more interested in making proclamations about the amount of subscriptions, Part II members were waxing eloquent on how to spend the proceeds. The Chinese, Sudanese, Ecuadoran, and Ghanaian Governors were quite pleased to announce their support for IDA, especially since it would broaden the scope and ease the terms of Bank lending. (See accompanying excerpts of their statements.) Ever on the watch for loose lips which could sink ships, Black closed the meetings with the proviso that IDA "shall support only sound projects of high developmental priority, and only in countries which are prepared to follow sound economic policies." Thus the stage was set for a battle between Part I and Part II Board members in working out the articles for IDA.

A memo from the President was circulated to the Board on October 9, 1959 which put forward the talking points on drafting the IDA articles. This was Boskey's original talking

points memo which had already been discussed at the August SLC meeting where it was suggested that reference to health and education projects be dropped--they appeared in Black's version. At the October 15, 1959 Board meeting the issue was referred to the Financial Policy Committee. This committee was composed of all the executive directors of the Bank but provided a less formal arena for discussion as there was no formal vote. (This is equivalent to a Committee of the Whole meeting in current practice.) The same practice was utilized in negotiating the IFC charter, but, as was pointed out in the SLC meeting, the IFC charter had been discussed much more thoroughly by the Governors than IDA had been prior to committee discussions within the Bank.

The Financial Policy Committee met regularly from October through December. Many issues were worked out during the process with much of the initial discussion focussing on subscription amounts and voting rights. On October 26, the Directors began addressing the issue of operations. On the question of IDA's financing of social projects, the Directors were almost exclusively divided along the lines of more- and less-developed members. Following is a list of the Executive Directors who expressed an opinion on the issue of social lending, by preference:

Against: Donner (Germany), Upton (U.S.), Lieftinck (Netherlands), Hammarskiold (Sweden), Cromer (U.K.), Watanabe (Japan), Rott (Austria), Aragonés (Spain).

For: Larre (France), Mejía-Palacios (Colombia), Brignone (Argentina), Machado (Cuba), Khosropour (India, Alternate E.D.), Ismail (Malaya), Rasminsky (Canada), van Vuuren (Austria).

At the end of the discussion, however, the consensus was along the following line: IDA's emphasis would be on so-called productive projects, but flexibility would be written into the charter to allow for management's discretion. It was to be a long fall before that consensus could be reached in financing other types of projects.

(I will not attempt to detail in this report the deliberations on the issue of social project lending in this review--it would make this discussion too lengthy. The arguments are interesting, however, and I have compiled them in chronological order in a folder should you wish to review them yourself.)

Among the din of voices in the debate on IDA, two were in marked contrast: those of Messrs. Donner and Mejía.

Otto Donner, representing Germany, staunchly opposed social projects *per se*, because they were nonrevenue-producing and thereby would not lead to economic development. At a December 21 committee meeting, Donner forcefully argued that in Article I the phrase "The purposes of the Association are to promote economic development, increase productivity and raise standards of living in the less-developed areas in the territories of members" be amended to include "thus" between the words "and raise" "to make clear that the raising of living

back to "patience"

standards were a consequence of the promotion of economic development and increased productivity." (p. 4)

Jorge Mejía Palacios, the Colombian Executive Director, was a persistent and adamant advocate of increasing the scope of IDA to include financing for social projects. Mejía Palacios never tired of arguing for financing of so-called social projects at the committee meetings as well as through substantial revisions of the proposed draft articles prepared by Bank staff. He argued that economic development should be pursued in tandem with social development in order to raise the overall living standards of the people. He strongly believed that IDA was the perfect opportunity for the Bank to broaden its lending practices by providing financing for water, sewage, education and nutrition projects. With all of the Part II directors on his side most of the time, Mejía even went so far as to suggest, much to Black's surprise and indignation, that the weighted voting system used within the Bank worked against the spirit of international cooperation and should be amended to a one-country one-vote system. (See October 15, 1959 Board discussion.) Such a system of voting for the articles would have given the Part II members a larger say on the articles and a greater chance of including nonrevenue-producing projects in the charter. Needless to say, the proposal did not pass.

Mejía also submitted for consideration his own version of IDA's purposes, which would allow the association to "Finance in total or in part specific productive or social projects aimed at raising the economic and social standards of any underdeveloped member country..." (October 29, 1959 IDA/59-15, p. 1.) The committee rejected the proposal and decided in favor of the idea that IDA be a close affiliate of the Bank. Mejía curtly responded "that if IDA were to be a close affiliate of the Bank... there was no need for a new institution." (October 30, 1959 committee minutes, morning session, p. 7.)

Other members of the Board were more flexible and conciliatory. Upton, representing the U.S. position, called for flexibility in the operational aspects of IDA. This was the newly official position of the U.S. which issued a memo entitled "Proposed Compromise on IDA" on November 4, 1959. It is worth quoting at length from the proposed compromise as it is a succinct description of the consensus which the Board was to reach:

The following group of proposals is offered by the U.S. as a compromise to resolve the basic problems concerning IDA....

With regard to the financing of social projects, while the charter would emphasize productive projects of development, it would be so drafted as to permit financing of social projects. It would not be necessary to use the specific term 'social projects' or to attempt to define the concept. The explanatory memorandum would indicate that attention would be concentrated on special situations such as pilot projects. In the financing of social projects, the principal source of funds would be the 'special resources,' although other national currency sources could also be so employed. On the question whether the IDA would finance 'projects' or 'programs,' the charter would emphasize projects but would expressly

authorize the financing of projects forming parts of programs." (Compromise memo, pp. 2-3)

Social projects would not be excluded, but they would not form the normal course of activities for the new association. The reference to "special sources" touched on Mr. Larre's proposal that social projects could be financed with the local currencies that would have gone into IDA's coffers as recycled PL 480 funds, while hard currencies would be used only for productive projects. (See, October 26, 1959 committee discussion, morning session, p. 11.)

Lord Cromer, argued with Donner "that IDA should not concentrate on social projects as such, but if social aspects were part of a productive project then there would be no reason not to finance them." (October 26, 1959, committee afternoon session, p. 2.) The emphasis of the Part I members was on productive, as opposed to the social nature of projects. Although Hammaraskiold is listed as against the type of social lending propounded by Mejía, he did express the candid opinion "that development was the key word. He suggested that there might not really be a difference between a social, and productive project, or between a high priority project and a sound project. The charter should be drafted with all possible flexibility in this respect." (See, October 26, 1959 committee discussion, morning session, p. 11.)

The end of calendar year 1959 signalled the final debate on IDA's articles and their supplementary memo. The newly coined phrase "high developmental priority" which originally appeared in the draft Article I was objected to by Messrs., Khosropour, Mejía, Rasminsky and Patel. Mr. Upton "thought 'high development priority' was broad enough to allow IDA to select almost any type of project, including social projects if they met the 'high development priority' criterion...." and "The Chairman [Davidson Sommers] said the staff considered the words to have a broadening rather than a restrictive effect," (December 22, 1959 committee meeting, morning session, p. 2.) Mr. Khosropour, however, took issue with who was going to decide whether a project was of "high" developmental priority. Mr. Rasminsky noted that "The reference to priority in the draft did suggest that there was a kind of blueprint in which projects were ranked in order of merit, with IDA authorized to select only those at the top." (p. 3) It was finally agreed that the language be changed, the result of which was the wording in the Articles that IDA would provide finance to the members "to meet their important developmental requirements..." (See Articles.) The phrase high development priority was retained in the memo, however, with no reported discussion.

The draft articles received final approval from the Board in the January 25-26, 1960, Board meetings. There was some discussion of the operations, but most of the proposals to either restrict or expand the scope of the association's operations were not approved. On behalf of Thailand Mr. Watanabe received confirmation from the Board "that a specific social project, forming an economic development project or projects in an economic development program, was eligible for Association financing." (January 25-26 Board meeting minutes, p. 7.) With Board approval for the submission of the articles for member country review, the negotiations came to a close. The IDA Articles became effective on September 24, 1960 with approval from the required number of member governments.

We see, then, that there are various reasons why IDA included the possibility of bringing social lending into its portfolio. They are:

- a) demand driven, in that the Part II countries wanted the association to make more financing available for social projects as demonstrated by the statements of the Governors and Directors of the Bank;
- b) a U.S. reaction against SUNFED, in order to counteract the desire for a U.N. sponsored SUNFED program which would finance "social overhead projects," the U.S. compromised on the association's charter to allow for inclusion of social and/or nonrevenue-producing projects;
- c) sheer force of will on the part of Mr. Mejía Palacios, who would later argue, in setting IDA lending policy, that it was the intention of IDA from the beginning to include social projects in IDA's portfolio, against the contrary argument of Mr. Donner;
- d) the view of Bank management that IDA's charter should permit maximum flexibility with regard to operations offered tacit agreement to the inclusion of social projects;
- e) the use of local currencies; if they were to be included in replenishments then they could fund projects of a social and/or nonrevenue-producing nature. (This argument, as proposed by Mr. Larre, would, however, work against the Part II membership's desire to receive hard currency financing for social projects.)

David Brindley
July 25, 1994

Chronology of Important Events in IDA Articles of Agreement

May 19, 1959

U.S. sends proposal to the Bank with no prescriptions for type of operations.

May 25 Proposal arrives?

July 8, 1959

Shirley Boskey prepares discussion notes on U.S. IDA proposal and addresses the question of whether IDA would finance projects "which are primarily social in character and which may not be self-liquidating."

August 11, 1959

Staff Loan Committee discusses the U.S. proposal. Sommers, chairing the meeting, points out that while there were differences among the Directors about social lending, "Most of the Executive Directors' thinking was pretty much in agreement that most of IDA's lending should be of the kind that the Bank would do except for creditworthiness considerations." [p. 1] Demuth argues that there would be a lot of pressure for IDA to go into social projects. Knapp responds that such financing would require much more capital than that proposed. [p. 7]

August 26, 1959

Management releases its position on the IDA proposal and states that while social projects would not be excluded, "IDA's financing would be largely concerned with directly productive projects of the type normally financed by the Bank, but that social projects would not be excluded. We would prefer to avoid any reference to health and education projects." [p. 3]

September 3, 1959

Allocation issues discussed at the SLC meeting. Sommers expresses the opinion that "the general field of Bank projects should be the normal field of IDA projects but that others should not be excluded. Municipal waterworks and sewerage systems might be somewhat unusual. Health and educational projects would not be excluded by name but would not be likely to be financed as foreign exchange projects." [pp. 5-6]

(See full text of minutes for interesting details.)

October 1959 Annual meetings

Advocates for social lending:

China: "The U.S. guidelines [for IDA] set forth the purpose of the IDA as follows: 'to promote, by financing sound projects of high priority, the economic development of less developed member countries whose needs cannot be adequately met under International Bank lending programs.' We welcome that statement in the sense that IDA operations will supplement International Bank lending programs in those areas where, for some reason or other, International Bank lending programs have not previously operated. Thus IDA will effectively enlarge the extent and scope of international lending operations." [Remarks by the Honorable Chia-Kan Yen, Minister of Finance of the Bank for the Republic of China. October 1, 1959,

Third Session of the 1959 Annual Meetings of the IBRD, Press Release No. 57.]

Sudan: "Equally important is the general recognition that the forms and conditions under which these facilities are given should be such as to make their effective utilization possible and acceptable to the underdeveloped countries. To quote an example, it is gratifying to note that there is a recognition of the need to provide assistance in respect of nonrevenue-producing schemes and also provide assistance for the local currency costs of development projects.... Let us also hope that its charter and operating policies will be as flexible as will be necessary to provide assistance in all fields where its affiliate body, the International Bank for Reconstruction and Development, is by virtue of its charter and strict financial test precluded from giving." [Remarks by the Honorable Abdel Magid Ahmed, Minister of Finance and Economics and Governor of the Bank for the Sudan, October 1, 1959, Third Session of the 1959 Annual Meetings of the IBRD, Press Release No. 48.]

Ecuador: "...[I]t is necessary to reflect the thinking of the peoples who glimpse in this new organization and instrument that will enable them to carry through quickly and under favorable conditions their programs of economic development and social improvement.... We must hope that IDA will signify not merely just another institution, but a genuine and valuable aid; the absence of rigidity in its rules, by the field of operations, by the terms of financing and, in general, by the other advantages to the countries having recourse to it in search of credit with which to realize their development programs. In this regard, I simply wish to mention that the IDA should have in mind the social conditions of the people, carrying the benefit of its operations to those plans and works which, due to their particular nature, do not find sufficient economic support at present. The problem of housing, school buildings, education of the masses, public health and sanitation, etc., have not always been accorded the most adequate and timely credit support. And yet, these problems have a major and fundamental effect on the development of the community..." [Remarks by the Honorable Isidro Ycaza Plaza, Minister of Economy and Governor of the Bank for Ecuador, October 1, 1959, Third Session of the 1959 Annual Meetings of the IBRD, Press Release No. 67.]

Ghana: "...[W]e note with even greater satisfaction the fact that as a result of the United States Government's initiative, a new form of loan capital is about to be generated through a new institution to be known as the IDA, which will lend to underdeveloped countries for projects not normally covered by Bank lending and on more flexible terms. We endorse this new proposal wholeheartedly and wish to express the view that its working should be so ordered that loans can be made to all deserving underdeveloped countries on an equitable basis, not only for specific projects, but also for general development." [Remarks by the Honorable K.A. Gbedemah, Minister of Finance and Governor of the Bank of Ghana, October 1, 1959, Third Session of the 1959 Annual Meetings of the IBRD, Press Release No. 71.]

Black insists at the close of the meetings that "I regard it as essential, therefore, that IDA, in whatever field it may operate and on whatever terms it may provide finance, shall support only sound projects of high developmental priority, and only in countries which are prepared to follow sound economic policies." [Remarks of Eugene R. Black, President of the International

Bank for Reconstruction and Development, at the closing Joint Session, Press Release No. 75.]

[The original U.S. proposal included the term "high priority," Black makes the first public usage of the term "high developmental priority."

October 9, 1959

[IDA/R59-1] Poses the question whether IDA financing should be focussed on "'productive' projects of the type normally financed by the Bank, or that it may also be expected to finance 'social' projects, such as water supply, sanitation, pilot housing schemes and perhaps health and education"; and whether financing should be limited to "specific projects or expressly permit the financing of 'general development programs.'" [p. 10] Reference to health and education, objected to in the SLC, is included.

October 26, 1959, Financial Policy Committee of the Board, morning session.

Donner opposed to widening the scope of IDA lending beyond that of the Bank. Larre suggests lending local currencies for social projects but reserving hard currencies for productive projects.

October 30, 1959, Financial Policy Committee of the Board, morning session.

Discussion of Mr. Mejía's proposal regarding IDA's purposes. Donner is flatly against lending for social projects: "By concentrating its efforts on increasing productivity, IDA would help create the prerequisites necessary for social improvement." [p. 2]

"In response to the comments on his paper, Mr. Mejía said that if IDA were to be a close affiliate of the Bank... there was no need for a new institution." [p. 7]

"Mr. Brignone thought that social projects should not be presented in the charter as the alternative or opposite of productive projects. If a distinction was to be made between a Bank-type project and a new kind of project, he suggested the terms 'long-run or long-term productivity' and 'short-run or short-term productivity'." [p. 6]

Black calls for flexibility in his summing up of the Board discussions: "Most of the other principal differences were on questions of operational policy, which did not necessarily have to be decided in the charter. In fact, it seemed clear to him that the charter should permit maximum flexibility, and that most of the Directors did not want operational issues to be decided in detail at the time." [p. 8]

November 4, 1959

The U.S. offers a compromise on some issues. "The following group of proposals is offered by the U.S. as a compromise to resolve the basic problems concerning IDA.... With regard to the financing of social projects, while the charter would emphasize productive projects of development, it would be so drafted as to permit financing of social projects. It would not be necessary to use the specific term 'social projects' or to attempt to define the concept. The explanatory memorandum would indicate that attention would be concentrated on special situations such as pilot projects. In the financing of social projects, the principal source of funds

David? = local curr of PL 480
↑?

would be the 'special resources,' although other national currency sources could also be so employed. On the question whether the IDA would finance 'projects' or 'programs,' the charter would emphasize projects but would expressly authorize the financing of projects forming parts of programs." [pp. 2-3]

November 20, 1959

[IDA/59-18, "Draft IDA Articles of Agreement"] Memo accompanying the draft articles of agreement: "Pursuant to the views expressed by almost all members of the Committee, Article V, dealing with operations, has been drafted in very general terms, to give the Association wide latitude to shape its financing to meet the needs of actual cases as they arise. For example, the Association would be authorized to finance any project of high developmental priority, whether or not revenue-producing or directly productive. Thus projects such as water supply, sanitation, pilot housing schemes and the like would be eligible for financing, although I believe it is the consensus of the Executive Directors a major part of the Association's financing would be concerned with projects of the type financed by the Bank." [pp. 2-3]

"ARTICLE I, Purposes. The purposes of the Association are to promote economic development, increase productivity and raise standards of living in the less-developed areas in the territories of members, in particular by providing finance for purposes which are of high developmental priority in the light of the needs of the member country or countries concerned..." [p. 10]

December 21, 1959, Financial Policy Committee of the Board, minutes of afternoon session
"Mr. Donner proposed several amendments to Article I. In the second line the words [sic.] 'thus' should be inserted before the words 'raise the standards of living,' to make clear that the raising of living standards were a consequence of the promotion of economic development and increased productivity." [p. 4]

December 22, 1959, Financial Policy Committee of the Board, morning session

Lengthy discussion of operations. While "[Mr. Upton] thought 'high development priority' was broad enough to allow IDA to select almost any type of project, including social projects if they met the 'high development priority' criterion..." and "The Chairman [Davidson Sommers] said the staff considered the words to have a broadening rather than a restrictive effect," [p. 2] Khosropour, Mejía, Rasminsky and Patel favor changing the term. Khosropour concerned with the problem of who was to decide whether a project was of "high" developmental priority. Rasminsky notes that "The reference to priority in the draft did suggest that there was a kind of blueprint in which projects were ranked in order of merit, with IDA authorized to select only those at the top." [p. 3] It is agreed that the language be changed, resulting in stated purpose that IDA would provide finance to "to meet [members'] important developmental requirements..."

January 25-26, 1960, discussion of the articles for submission to Governors

"On a request by Mr. Watanabe, on behalf of Thailand, it was confirmed that a specific social project, forming an economic development project or projects in an economic development

program, was eligible for Association financing." [p. 7]

Jan 26 1960 Articles submitted to Gous for approval

Sep 24 1960 IDA becomes effective

November 29, 1994

Richard,

I reviewed the files of the Staff Loan Committee at the archives in reference to the first IDA credit to India for highways. Unfortunately, there was no record of a discussion of this credit. There were, however, two interesting discussions held on September 7, 1960 and June 16, 1961, which I photocopied and attach to this memo. You will find the second discussion, which relates to a Bank coal project, especially interesting.

In reviewing the Board discussion of the IDA highway credit on June 20, 1961, I noted that the Bank had committed itself to lending \$400 million to India during its five-year program, and "a substantial part of this aid was promised in a form which should result in quick disbursement." (p. 6) There was no further discussion on program loans nor balance of payment financing.

David

STAFF LOAN COMMITTEE

SLC/M/60-26

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Rough Notes of Staff Loan Committee Meeting held on
Wednesday, September 7, 1960, at 3:00 p.m. in Room 1006

INDIA

Mr. Stevenson - The U.S., U.K., Germany, Canada and Japan would be represented at the Indian Consortium Meeting in Paris. Italy would send an observer.

The membership of the Indian Consortium was expected to attend the Pakistan meeting. Italy did not seem to be very favorable but might send someone.

Mr. Knapp - Italy and France had made the case that they would like to attend but they were not equipped constitutionally to put up long or soft-term financing. They could not make any commitment last year for the Second Five-Year Plan.

They contemplated taking action to equip themselves to participate in the future. Mr. B. K. Nehru had said positively that he had heard from Paris that France was joining. The word we had was that the French had not yet made up their mind. We have not heard from the Netherlands.

The Bank was preparing a statement to emphasize the points in para. 4 of the Area Memorandum.

Para. 4 (b) would be the main battle. Mr. Black had sent a personal letter to each of the participant countries at the ministerial level, regretting that he would not be present and stressing the importance of 4 (b) and stating that India could not carry the program through without a great deal of assistance. He had then commented on India as a creditor.

The Bank hoped to reach agreement on the general approach.

Assistance should avoid as far as possible an additional burden on India's balance of payments.

The same approach would be taken by IDA on its relations with India.

The Bank's ability to lend to India would depend on the amounts made available from other sources.

On the questions of the flexibility of the aid, its tying to projects, etc., the Bank planned to advocate as liberal a policy as possible.

Re para. 3 of the Area Memorandum, neither country was creditworthy for these requirements.

If aid were to be provided on the scale needed, it could not be based on the foreign exchange component of projects. There had to be a substantial amount made available for miscellaneous capital imports or for maintenance imports or general balance of payments assistance.

Psychologically it seemed to him that if they obtained funds on the latter basis there would be a tendency to feel that there should be a hardening of terms.

Mr. Rist - If you added in the local cost of all prospects likely to be attractive, would you reach the amount needed?

Mr. Knapp - Yes.

Local Currency Financing

There were two ways to go after taking the foreign exchange component of projects: (1) taking the local currency component; or (2) taking the foreign exchange component of other projects.

The countries might think now about the extension and refinancing of obligations falling due in the next five years.

Mr. Stevenson - If all the PL 480 aid was available from Pakistan it would not be such a problem there.

Mr. Iliff - Re para. 7, would it be possible for us to say that there ought not to be more than ~~'x%~~ devoted to debt service.

Mr. Stevenson - They were liable to come away with a higher debt service than they ought to.

Mr. Aldewereld - What formula would we apply?

Mr. Stevenson - There was not one really. It would be arbitrary. We should see that they had some net investment.

Mr. Iliff - A better position would be to say that in our view the total amount of soft financing should be at least 'x%'.

Mr. Knapp - We could not do this as a practical matter now, but might be able to in two or three years.

Mr. Iliff - Perhaps the Bank should not lend at all.

Mr. Rosen - Hard loan money would only be put in on continuing aid to India.

Mr. Stevenson - We would encourage more soft money to come in by making a hard loan ourselves.

Mr. Iliff - We were near the margin of lending on a hard basis and the bulk had to be on a soft basis.

Mr. Knapp - We had not drawn the line.

Mr. Goodman - There were two practical problems and the Bank should take the lead.

Mr. Hoffman - It would be important to consider the timing.

They would probably get more hard lending than they should in the next year or two. He hoped that an institute would be set up in Germany, etc., for soft loans later and what we did we would have to do on faith.

Mr. Iliff - We should do what we could to habituate these people to think of soft loans.

Mr. Hoffman - In Germany legislation for the purpose was being considered.

Mr. Demuth - If they had to have legislation, they should talk in terms of grants.

Mr. Iliff - The U.K. could not make soft-term loans or grants without legislation.

Mr. Wright - He thought they only needed to put them in the budget.

Mr. Iliff - He did not think that was right.

Mr. Knapp - He would like to call attention to a couple of points on the charts. These figures were calculated on the basis of note (b). We were making the point that any hard loans should be on a longer-term basis pushing out the maturities and then the lines would decline.

You could make the case, if you were considering a percentage, that you should take account earnings plus participation of grant aid into account.

These charts were on a very conservative basis.

Mr. Stevenson - Also they assumed no borrowing after the Third Five-Year Plan.

Mr. Cope - He had often felt that we overused this device to show the extent a country could incur debt.

He felt we should abandon the year-by-year approach and consider the situation over a decade.

Mr. Knapp - It was a club to beat people with, although it was crude. You could not use 10% in this case.

Mr. Hoffman - We knew that PL 480 was coming in and might tack that on.

Mr. Knapp - This was not clear in the context of our papers. When we were talking about half of the aid, were we excluding PL 480?

Mr. Wright - Yes.

Mr. Knapp - We should be sure to tip our hats to the U.S. on PL 480. They deserved credit for this.

Mr. Rist - The decision would be motivated by other than financial considerations. It was a political operation.

Mr. Knapp - We should not get too political. We had to persuade the European countries that they could not attain their political objective and put their assistance on a hard-term basis.

The whole of the U.S. aid was on a soft-loan basis and they might cause the U.S. to harden up.

Mr. Rist - We might have the U.S. make this argument.

Mr. Knapp - The chart had been drawn on the conventional basis.

Mr. Iliff - There was a ceiling above which a country should not mortgage its earnings for a debt.

Mr. Knapp - India happened to be a case where they ^{were} more likely to receive continued aid than in most countries and this should permit us to consider lending more easily.

If we were sure someone would pick up the check later on, we would tend to increase our own ceilings.

In the first two years the target would not be achieved.

The U.S. would make the argument that if other countries continued to make hard loans, it would entail bailing them out by U.S. soft loans.

Mr. Knapp - What about the Swiss credit?

Mr. Wright - It was a firm line of credit.

Mr. Goodman - There was a \$3.5 million Belgian credit.

Mr. Knapp - He would like a note on the Swiss credit.

Mr. Wright - All right.

Mr. Knapp - We would come back to creditworthiness in the light of the Bank's lending.

There would be a lot of danger in an approach dividing up the Third-Year Plan on a project basis. This would play into the obnoxious effect of tied lending. The more selective process of dividing up according to the economic source of supply would produce cheaper execution of the project.

Some had to be non-project lending.

We should urge that a substantial part of the lending be in the form of lines of credit on a non-project basis.

India had the problem of placing orders now. If they could get assurances soon which could eventually be used, they could pick up maintenance imports and bits and pieces out of projects themselves.

The psychology would probably be to harden up terms if they were on a credit basis.

Mr. Rosen - How would this counteract Russian projects?

Mr. Knapp - They had some of both.

Mr. Iliff - What about the Bank?

Mr. Knapp - Perhaps the Bank should loosen up and perhaps take things that others could not.

Mr. Stevenson - There was the argument that the Bank should not take the railways as they were so easy to handle.

Mr. Knapp - They were massive and the argument was that they should be set aside for government financing, but that might be part of our package too, e.g. a line of credit for road transport.

We should press on others the sector type loan.

Mr. Cope - If disbursements were made against total costs, you would not run into this problem.

Mr. Knapp - He doubted that the Bank should get into local currency expenditure loans in India. We could advocate that others could do more than the Bank could here.

Bank Lending - India

Mr. Knapp - Only in extreme circumstances would we want to be driven to pull out.

The provision of \$100 million a year would mean a possible IDA contribution of \$40 million a year. This would leave \$60 million a year for the Bank or \$120 million beyond the Bank's present stake. \$25 million a year of new lending by the Bank would be fairly modest.

A condition of our lending would be the extent to which we were satisfied with the lending by others.

The amount of \$25 million a year was a round and convenient figure. This would build up our stake from \$600 million to \$720 million.

Mr. Knapp - He would circulate to the Area Departments the summary of the Area loan forecasts for the Bank for 1960/61 and 1961/62.

It looked as though lending this year would be large. A lot would hinge on getting ahead with Mexico and Argentina. The total might be as much as \$800 million. Next year the Bank's lending would probably go off a lot. It was ~~to~~ ~~be~~ hard to see that it would amount to \$700 million.

If we went ahead with Mexico, Argentina and Venezuela, Latin America would be restored as the front runner in the area figures.

In the case of India and Pakistan it was our purpose to encourage others and to leave room for us to do our part.

Mr. Rist - That would not only look nice, but it would also look serious.

Mr. Hoffman - The U.K. would make the point that IDA should be bigger and make a bigger contribution.

Mr. Knapp - IDA might come to take a big role.

We would have to duck questions of the proportion and division between the Bank and IDA.

After some cross-examination, some might be able to work this out.

We would say an amount in the order of \$100 million.

Mr. Cope - He felt that these were the right tactics here.

Mr. Knapp - The meeting would be a kind of warm-up. Methods would be discussed at another meeting held in March.

In the absence of a more popular or cogent formula we would try this out.

PAKISTAN

Mr. Knapp - This was a strikingly different situation. With the large Indus loan to which we had already committed ourselves, we would have a net investment of about \$125 million for the 10 years ahead. There was not a lot of slack and we would make new loans as others were refunded.

We felt basically that they had a weaker economy and that we should keep the percentage on a lower level compared with India.

Here we pointed out that for the first two years they would need \$350 million of which probably \$100 million, excluding the Indus, might have already been secured.

We had in mind \$35 million from IDA and some financing for Sui Gas and PICIC by the Bank. The Karachi electricity and ports projects might go to IDA.

We might consider \$60 million divided on a 30-30 basis between the Bank and IDA.

What would \$30 million of Bank lending mean? It would be a net addition over our present commitments and we would be going at somewhat a greater rate than in India.

Mr. Rist - Pakistan was also getting Indus aid.

Mr. Knapp - It was a question whether we should treat this as aid to India. Pakistan regarded it as making good damage done.

Mr. Demuth - \$15 to \$25 million from the Bank for the first two years would be very small.

Mr. Knapp - Yes.

We would have to be prepared to say what we would do immediately from the creditworthiness viewpoint by the Consortium Meeting.

Mr. Stevenson - This depended on the amounts and conditions of aid by others.

Mr. Knapp - Sui Gas had been talking about a \$20 million loan and we could not slice this much.

You could make a case for lending \$30 million over two years. It would be a higher contribution than that to India, but you would slice things very fine if you said \$20-\$25 million.

Also we had started to work on loan applications. However, there was not the margin to do much after the Indus loan.

He suggested that here we were not talking about tactics but that in terms of Bank lending we were prepared to consider another \$20-\$25 million.

Mr. Cope - He thought this amount high but did not feel we could do anything else.

Mr. Knapp - It troubled him that Pakistan had always been told that financing of the Indus would be above anything else. He felt we should go in for this amount.

The meeting adjourned at 4:40 p.m.

HGA Woolley/mrd

Rough Notes of Staff Loan Committee Meeting held on
Friday, June 16, 1961 at 3:00 p.m. in Board Room

INDIA - Project for Private Coal Industry

Appraisal Report

Mr. Knapp - This is a most interesting project and pattern but I do have only a couple of questions to discuss today. Since this project has already been discussed at a Department Head Meeting earlier, I don't think it's necessary to go back over the project or the terms unless others want to.

First I suggest that the words "balance of payments loan" be deleted in the report, not because it's not true that this is a balance of payments loan, but because the word has come to have a derogatory sense. Actually this is a balance of payments loan with the proceeds earmarked for a particularly productive sector, unlike the Australian loans which were balance of payments loans directed toward the whole economy of the country with the trading community determining which sectors of the economy would benefit. Here the particular sector chosen is very important, giving weight to the point that the loan is not for the economy in general but for the coal sector in particular.

Also, I wanted to note that this was a very well written report by Mr. Van Dine who is leaving us today.

Thirdly, I do not think the report should blink the past treatment of the coal industry by the Government, but some of the statements in the report are rather severe and I suggest that before going to the Board these statements be toned down without changing the basic facts.

Does anybody have any questions on the Technical Report?

Mr. de Wilde - At the risk of disclosing the fact that I haven't read the report, who is going to pay the interest on the loan?

Mr. Knapp - The Indian Government.

Mr. Diamond - Para. 122 suggests that assurances be obtained that prices will be maintained at a level sufficient to assure the private coal industry a reasonable return on its investment. My question is what is intended here, over and above what we have already received or would receive in negotiations to satisfy ourselves, and, secondly, who is going to determine what is reasonable?

Mr. Van Dine - You are quite right that it's not possible to apply a formula, but the working party thought that some general language might be possible which would permit the Bank to raise the question in the future if prices go down. Up until now the return has been too low, but it is expected to increase now as a result of subsidies. In two or three years' time the Bank should review the situation and might wish to raise the question with the Government on the basis of the general assurances received.

Mr. Mason - Actually the biggest factor in the company's return is labor cost for which an automatic adjustment in price is provided.

Mr. de Wilde - I take it that it's not intended to justify price increases to cover unproductive work.

Mr. Van Dine - That's correct.

Mr. Hoffman - I am in sympathy with the conclusion, but I wondered why the report did not recommend that they do away with the price controls completely. However, I think that the recommendation is on sound ground as long as the Bank continues to keep the problem in mind.

Mr. Van Dine - As you can guess, we thought it useless to recommend abolition.

Mr. Hoffman - That is probably right.

Mr. Knapp - On p. 29 the report refers to procedures followed by the DLF and the Export-Import Bank. What were these?

Mr. Van Dine - This technical procedure was employed with several credits for industry. Some of those loans actually had allocations for the public sector of the coal industry but were not used and were shifted to the private sector.

Area Paper

Mr. Rucinski - The amount of the loan I suggest leaving to the negotiators, as I understand the Indians do not want the full \$60 million.

Mr. Knapp - I take it that para. 1 of your memorandum means that a particular mine must be financed entirely in the first tranche or the second tranche of the loan and not that all of the equipment for the new mines should be financed in the first or the second tranche.

Mr. Rucinski - That's correct.

Mr. Mason - It's questionable whether we can work on this basis because they may not have the information available for any of the new mines.

Mr. Aldewereld - As was pointed out at the Department Head meeting at which this project was considered earlier, the point to this is merely that we don't want any individual mine started unless its complete financing is assured.

Mr. Knapp - We all agree that no new mines should be considered for Bank financing unless the finance for all of the mines is assured. The only question is whether plans for some mines are far enough advanced at this point to make that determination. I suggest that this be left to the negotiators.

Mr. Rucinski - What if the Indians ask for reimbursement in the second loan of later cost of mines?

Mr. Cavanaugh - I would object on the grounds that this is merely a device to avoid commitment charge.

Mr. Knapp - If you are talking about another mine entirely, we certainly could include it in the second loan, but we cannot at the time we make the first loan make any commitment for a second loan. Consequently, we should play down when we talk about reimbursement.

There is another question of reimbursement in the second tranche of additional expenditures on mines financed under the first tranche. This is something for negotiators to keep an eye out for.

Mr. Mason - If all of the new mines are included and the first two years for the other categories the arithmetic shows that there isn't much involved, i.e., \$50 million versus \$60 million.

Mr. Rucinski - I was talking of \$10 million, for instance, for 10 new mines and after the first loan the cost goes up requiring the Indian Government to put up additional funds for these 10 mines for which they might request reimbursement in the second tranche.

Mr. Knapp - That would all depend upon whether we can get their agreement on a definition of a project. The case you oppose might be considered but I doubt if we will be able to get any such agreement which would enable us to determine increased costs.

Mr. Lejeune - How much has been committed for this second tranche?

Mr. Knapp - There is no commitment. We are talking about \$60 million and they may wish to cut that down to \$50 million or so for the first tranche.

Mr. de Wilde - Why are the expenses stretched out over five years? Is this due to technical problems or to the administration of screening projects by the committee?

Mr. Van Dine - For the new mines the expenditures for the first year will be almost entirely local currency. The foreign exchange expenditures come later after the shafts have been made. Therefore foreign exchange expenditures will be small for the first year. However, it should be remembered that these figures are only estimates but it's assumed that the committee will approve all mines as they come up for consideration and will not space requests for foreign exchange over the five years.

Mr. Knapp - I think we should leave this to the negotiators, but I wondered whether we shouldn't have the same requirement for Item 2 of the list, that is, the equipment to achieve additional production for existing loans.

Mr. Van Dine - To a certain extent but it depends on each individual project. It's not true of category 3, which would be purchase of individual pieces of equipment rather than a program of a work for a mine.

Mr. Armstrong - The completion of the purchase of the equipment for the second category is not as important as it is with the first category since the principal expansion of production in the existing mines will result from proper working of the mines rather than from the new equipment.

* * * * *

Mr. Knapp - What are the thoughts about the term of the loan?

Mr. Rucinski - Power loans to India have been for 20 to 25 years; railway loans for 20 years. Since this loan would be merely for the benefit of the Government rather than the coal industry, it could be argued that the Bank should go to 25 years in this case.

In answer to the question why we would not make the PICIC loan for 25 years, which also provides foreign exchange, is that in PICIC we had the exchange risk problem and also the question of who would pay the interest for that long period of time.

We made a statement at the Indian Consortium Meeting that the Bank loans to India would follow the Bank's normal pattern of 10 to 25 years, therefore I think we can make this one 25 years since it is not closely attached to the project.

Mr. de Wilde - Since this loan is not directly related to the coal industry, the latter will not have to repay the loan. The loan is related to the Indian economic situation. I think the term of 25 years can be justified on the basis of the general economic situation.

Mr. Knapp - I think your argument should be stated somewhat as follows: if the loan were related to the coal mine, and assuming a life of 8 to 10 years for the equipment, the loan should be for 8 or 10 years regardless of the Indian foreign exchange picture. But if, as I think the case is here, the operation is not related to the coal industry and does not require financial discipline on the ultimate user of the goods acquired with the loan, I think we can make a distinction and agree to a longer term.

Mr. Rucinski - That's right and that's why this loan is not the same as that for the Chasnalah project. There, where the loan is related to the project, we intend to have a shorter term.

Mr. de Wilde - I am inclined to think that, even if the coal industry did need the money and the operation did require financial discipline on the ultimate user, we should agree to a long-term maturity in view of the very serious problem of the foreign exchange.

Mr. Aldereld - The suggestion that we agree on 20 to 25 years worries me because we seem to be giving an IDA character to Bank operations. Even though the ultimate recipients of the loan don't need the money, the life of the equipment is only 10 years and there is going to be another burden on the foreign exchange resources of the country when they have to replace the equipment. Basically I am urging that we should make a distinction between IDA-type operations and Bank operations and not try to merge the two.

Mr. Rucinski - We have a big problem of providing foreign exchange for India. I don't see why we can't do this loan providing funds for an important sector of the economy on a 25-year basis. In 10 years from now the whole situation may have changed, but I don't think the argument about the cost of replacing the equipment is any good. Moreover, I think it's unwise for the Bank, against its own advice, to impose terms upon India which are likely to cause a further crisis in their balance of payments problem.

Mr. Knapp - In answer to Mr. Aldewereld, I would agree if we were talking about a loan for a normal project. But here we are not talking about the users of the equipment. Actually, we are talking about a loan to assist the Indian economy and using the coal industry program as a vehicle for this assistance. I agree with Mr. Rucinski that in 10 years from now many changes are likely in the balance of payments picture and in any event the additional burden of replacing equipment is likely to be a very small factor.

Mr. Aldewereld - I have no objection to the objective of relieving a pressure on the balance of payments of India, but if this is our purpose, why don't we do it by means of IDA and keep the Bank in its present business of conventional development lending?

Mr. Rucinski - The Bank's commitment to assist in the present balance of payments problem amounts to \$200 million which is about equal to repayments on existing loans. Consequently, it doesn't really make much difference to the Bank. On the other hand, shifting to IDA would make a lot of difference to India because IDA is intended to do more local currency financing leaving the foreign exchange to the Bank. If we shift this foreign exchange loan to IDA, it would mean less foreign exchange would be made available to India to meet their requirements over the next two-year period.

Mr. Knapp - On the other hand, India is being helped because in the proposed project we would be putting together a number of small projects which otherwise would not qualify for lending from external sources.

Assuming \$200 million IDA credits for India in the next two years, could we fit this in?

Mr. Rucinski - Yes, we could. We now have about \$125 million in IDA projects for India, including BEAS.

Mr. Knapp - Why BEAS in IDA?

Mr. Rucinski - Looking at BEAS we now think that is quite appropriate for IDA. First, it has a large percentage of local currency financing and second, because the initial return on the investment is going to be rather low.

Within a list of acceptable projects, we can shift any way we want between IDA and Bank. It doesn't make any difference to us, but it does make a lot of difference to the Indians. So I ask why go to IDA with this project, thereby hurting India?

Mr. Knapp - There seem to be three alternatives and I would like to hear the Committee's feelings about these three: (1) a 15-year Bank loan for the coal industry project; (2) a 25-year Bank loan for "the balance of payments;" (3) an IDA loan on IDA's normal terms.

Mr. Lejeune - Logical reasons can be put forward for doing this as an IDA loan and also as a Bank operation. From a practical standpoint, I think it should be kept in the Bank because it would be unwise to make a large IDA credit for balance of payments considerations at this stage in IDA's development. To avoid the precedent of a long-term Bank loan to finance goods or equipment with a shorter life, I would suggest a 15-year Bank loan which I understand is the average life of the equipment.

Mr. Aldewereld - I am not as worried about IDA's reputation as the Bank's, if we should make a 25-year loan to finance a 15-year project. If we have to give long-term funds, IDA was supposed to provide long-term funds. I am afraid the precedent would destroy any possibility of continuing to relate the term of Bank loans to the life of equipment in the future. IISCO, for instance, does not have foreign exchange and exactly the same argument can be used to make a long-term loan for the Chasnalah project.

Mr. Cargill - I agree with Mr. Aldewereld. All of the arguments that have been given for deviating from Bank policy are all arguments for IDA. I don't think the distinction based on the requirement for financial discipline on the ultimate beneficiary is going to help in the future. The Government will offer to discipline the user through the terms of its loan to the ultimate beneficiary while asking for 25-year loan from the Bank. If I had to vote for a Bank loan I would vote for 15 years.

Mr. Iverson - It appears to me that we would not make a long-term Bank loan if IDA did not exist.

Mr. Rucinski - No, that's not true. We have made loans to Australia on a long-term basis for balance of payments purposes, but I think that the fact that we are using the coal industry as a vehicle for this loan should not blind us to the fact that the Government sorely needs foreign exchange on a long-term basis and that is the important problem here.

Mr. Cargill - I thought that the commitment of \$200 million for the Bank and \$200 million from IDA over the next two years was made particularly so the Bank would not have to deviate from its usual practices in providing money for India. I don't understand why abandonment of those practices is now being urged on one of the first Bank projects considered to fulfill the \$200 million commitment.

Mr. Diamond - I am in sympathy with Mr. Cargill's position, but since we are providing funds for the Government I would prefer to see an IDA credit rather than a Bank loan.

Mr. Lejeune - I wouldn't disagree with that, but I recommended a short-term Bank loan from the practical standpoint of IDA's reputation.

Mr. de Wilde - I agree with Mr. Rucinski. The financing of local currency expenditures on a large scale will be necessary and, therefore, we should reserve the IDA funds for the local currency projects.

I agree with what has been said that a long-term loan granted for balance of payments purposes will lead to requests for the same thing from others with the Government taking over the role of disciplining the borrower. However, I think that this is something that we have to accept in order that the terms of the loan are realistic in terms of the country's ability to repay considering the balance of payments position.

Mr. Cavanaugh - I would favor a Bank loan for 15 years. The First of Boston representatives visiting the Bank have been asking whether the IDA philosophy would spread to the Bank in view of the shortage of IDA funds. I think that this recommendation for a longer-term loan illustrates exactly the fear that they expressed and will be seriously damaging to the Bank in the long run.

Mr. Clark - I agree that it should be an IDA loan.

Mr. Hoffman - I sympathize with Mr. Rucinski. If IDA had a lot of funds for India, I would agree that IDA finance this project. In the absence of funds, I think IDA should be reserved for projects which are not fully foreign exchange projects. Mr. Aldewereld's argument is a good one, but where the loan is divorced from the goods financed, as it is in this case, I think the argument loses force, particularly when so much can take place between now and repayment. It certainly is not as important a consideration at the present time as the over-all Indian economy and the balance of payments difficulties. Thirdly, I think that the question of India's success in solving its difficulties is so important that the precedent argument doesn't make much difference. If India does not succeed, the catastrophic results will be immeasurably greater than the difficulties created by the precedent of a long-term Bank loan for short-lived equipment.

Mr. Iverson - If it were possible to shift the Indian projects between Bank and IDA, I would suggest that this go to IDA, and if it has to stay in the Bank, I would prefer 15 years.

Mr. Cargill - As I understand it, the Bank has argued that the other members of the Consortium should lengthen the terms of their loans to India, thus reducing the burden on India, because the Bank could not lengthen its term. I don't understand why we are now arguing that the Bank should lengthen the terms of its loans.

Mr. Rucinski - In the Consortium Meeting we were arguing for softness of the loans of the other members urged longer terms because India could not repay at the suggested rate but no consideration has been given to changing the Bank terms.

Mr. Cargill - That's exactly what I just said.

Mr. Clark - Do we not have enough 25-year projects to fill the Bank's \$200 million commitment?

Mr. Rucinski - Yes.

Mr. Knapp - To summarize the discussion, I would like to say three things:

(1) We certainly made it clear in the Indian Consortium Meeting that the Bank would not distort its normal lending pattern for India, but we would do all possible within the framework of our existing policies.

(2) I think Mr. Rucinski is right that this is not a normal Bank project. Because there is no financial discipline on the ultimate borrower we would be justified in setting a term unrelated to the life of the equipment. However, as the discussion here today has indicated that the members of the Staff Loan Committee are not convinced that this is not a normal Bank operation, I am convinced that we should stick to our conventional pattern, which in this case would mean a 15-year loan.

(3) I don't think that we have to decide now whether to finance this project with an IDA credit. We can reserve that question until we have had a review of the whole program of investment by the Bank and IDA in India. Initially my reaction is that \$60 million for the highways and \$60 million for this coal project is a little too fast for IDA.

Mr. Rucinski - I think that this should be a Bank project because of the local currency problem.

Mr. Hoffman - I agree. The question of free foreign exchange is a very crucial one.

Mr. Knapp - Certainly we should do what we can but we do not have to settle India's free foreign exchange problems regardless of the consequences for the Bank. I think that is a problem that the Consortium members have to settle, not the Bank and IDA. Also we should remember that financing this project is a contribution for India as we would be picking up in this program numerous small expenditures which would otherwise be lost.

Mr. Rucinski - I wasn't arguing that the Bank has to settle India's foreign exchange problem. I was merely arguing that India's need for foreign exchange is so important that in considering our lending it outweighs other considerations.

Mr. Knapp - It is possible that the Indians may wish the Bank funds reserved for other long-term projects thus getting long-term repayment rather than a short-term loan now, and would welcome IDA financing for this project.

Mr. Rucinski - The immediate foreign exchange problem is more important than the problem of repayment in future years.

Mr. Knapp - I suggest that the minutes should note that the Committee agreed a Bank loan of 15 years is appropriate to finance the coal industry program but if it later appeared desirable because of other general considerations to shift the financing to IDA this would be satisfactory.

TRINIDAD and TOBAGO

Economic Report -

Mr. Knapp - I take it the only creditworthiness question is why the Bank is lending to British Guiana?

Mr. Cavanaugh - We sold participations amounting to \$1 million out of \$1.25 million British Guiana loan and were turned down for the balance of the loan only because the maturities were too long and the rate was too low. None of the purchasers raised any questions about the creditworthiness of British Guiana.

Mr. Knapp - That's my point. If we sold \$1 million of the \$1.25 million loan at a yield of 5-1/2%, one may ask why the Bank makes a loan at 5-3/4%.

Mr. Lejeune - Trinidad could not borrow without the Bank's participation in the operation.

Mr. Knapp - The question could be asked, "Why not change rules so that these borrowers could borrow in the market with a U.K. guarantee without going through the Bank's operation?"

Mr. Cavanaugh - I think that they would have to pay much more if the Bank were not in the picture. The purchasers of the British Guiana participation had special reasons for their purchases, and bought the participations because the U.K. guarantee was attached to them and the Bank was in the picture.

Mr. Lejeune - The U.K. is not likely to guarantee loans from the U.S.

Mr. Knapp - I am not objecting but merely pointing out that it does seem a little strange.

Mr. Fajans - The U.K. authorized Trinidad last fall to borrow in the New York market for a package deal involving a sanitation project. However, the operation never came off. A Trinidad mortgage agency is about to borrow in the U.K., at a rate of 6-1/2%, to finance housing projects, but the transaction has not been finalized as yet.

Mr. Cavanaugh - While we probably would be able to sell some participations in the proposed loan to Trinidad, we could not sell the entire \$23.5 million.

Mr. Knapp - I agree that we may be able to sell some.

I take it that the economic paper has been reviewed by the SEC.

Mr. de Wilde - Yes.

Project Report

Mr. Knapp - The project report is also rather straightforward.

Mr. White - That is true except for the problem of the gas pipeline. A telegram has just been received stating that agreement has been reached on the supply of natural gas. No details are given. However, last week we were informed that the agreement would provide for the purchase of gas at a price 20% below the figure used in the Technical Report.

Mr. Diamond - Why is the price for gas as high in Trinidad as in the U.S.A.?

Mr. White - In the U.S.A. the average price is 15¢ per thousand cubic feet. Assuming the information received last week is correct, the rate in Trinidad would be about that of Venezuela.

Mr. Knapp - I suggest that in para. 35 of the Technical Report it should be clarified that the price per thousand cubic feet is the well-head price.

It would appear then that the telegram fills the last remaining gap in the picture.

I have a question as to why in para. 76 use of an operating ratio covenant was suggested.

Mr. Aldewereld - The circumstances here call for the operating revenue covenant because there will be unutilized capacity which would make a covenant on the rate of return on investment unreasonable. In order to reach a satisfactory rate or return, the rates charged for power would have to be unnecessarily high. The alternative of using the operating revenue covenant is one suggested in the paper prepared by the special working party established to consider the Bank's revenue covenants.

Mr. Knapp - The paper of the working party is stuck with me. I have not had a chance to read it, but will do so as soon as possible, and it will then go to the SLC for consideration. This seems an interesting way of working out the problem.

Mr. Diamond - In view of the uncertainties inherent in a constitutional change, has any thought been given to requiring consultation for a change in the management of the Commission?

Mr. Cargill - There would be a normal covenant requiring the Commission to operate in accordance with sound utility practice.

Mr. Fajans - The working party has discussed this matter and thought that a side letter providing for consultation on proposed changes in the top personnel would be appropriate. In reaching this conclusion the working party was partly guided by the thought that the Bank's contribution would represent a large percentage of the total cost of the project.

Mr. Knapp - Normally such a letter is not used unless the situation confronts us at the time of negotiations. There isn't any reason why we couldn't insist on assurances if there is any possibility that the situation might arise later.

Mr. Lejeune - It is quite probable that the standards of the past may look good in the future. Over the uncertain years ahead the quality of the management of the Commission will probably decrease. Therefore a letter would appear advisable.

Mr. Cargill - If that's the case, a general covenant would be a better vehicle of protection than a side letter.

Mr. Clark - It's the Legal Department view that reliance on the general covenant is to be preferred because the specific letters dilute the power of the general covenant.

Mr. Knapp - In the Volta River project agreement wouldn't there be a covenant that the management must be satisfactory to the Bank?

Mr. Clark - That's so much bigger that it's not comparable. It may not be any bigger in percentage than this, but in absolute amounts it's so much bigger that it changes the value and cannot be compared.

Mr. Knapp - I question whether we should have a covenant on management in the Loan Agreement.

Mr. Fajans - We could try during negotiations. This point hasn't been discussed at all.

Mr. Lejeune - I am satisfied with the present management but I am afraid that this might be a weak spot in the future after the present management has gone. Since we would have a big stake in the enterprise, I think we should have a side letter although I realize that one can question how effective this would be.

Mr. Knapp - I think that you should cover this management problem, but I don't care how it's done.

Mr. Clark - We could cover the management problem in the standard covenant, but I do object to a covenant that the management must be satisfactory to the Bank.

Mr. Knapp - No. That's not what I meant. We only want something on which to hinge later consultation on management.

The meeting adjourned at 5:10 p.m.

GMStreet/mrd

Richard:

You asked me to look into some IDA projects which you thought exhibited some novel characteristics in Bank Group lending. I discuss the general findings in this memo and attach the pertinent documents. I reviewed the general negotiation files (LEAP files) for the time period surrounding the credits and also the specific project files.

Chile

The project was an IDA credit for \$19 million (with a joint loan from the IBRD for \$6 million) for road construction. You asked if there were components of disaster relief. Earthquakes hit the southern region of Chile in May 1960. Judging from the files it can be inferred that the project contained some element of "disaster relief". A memo from Cope to Knapp relates a conversation Cope had with Carlo Gragnani, Alternate ED from Italy, in which Gragnani asked about the Bank's general policy regarding reconstruction loans, but clearly with Chile in mind. Cope indicated that the Bank had not given any thought to lending to Chile for reconstruction and that if they did they would not be bound by any precedent. But when Black was called upon by the President of Chile's special emissary for soliciting assistance in connection with the earthquake damage, Black and Knapp agreed to "give a fresh look at the Chilean Government's Agricultural and Transportation Program to see how far it might provide the basis for further Bank loans in the near future." It should be noted that the projects under consideration were initially appraised in 1956 and while the Bank was satisfied with their technical merits, they were not further considered "on grounds of the country's lack of creditworthiness at the time." That lack of creditworthiness did not stop the Bank from lending to the country in November 1956, approving two loans in July 1957, and one in 1959.

A mission was quickly dispatched after Black's phone call and the mission found that the Bank should go ahead with the projects. Final approval of the credit was not achieved until June 1961--perhaps as an outcome of the conclusion of the report that: "while Chile has been seriously affected by the earthquakes, it has not suffered the kind of lasting damage which the sound and determined policies of the present administration together with the assistance from abroad which the country continues to receive cannot well overcome."

Honduras

The credit to Honduras, the first operation of IDA signed May 12, 1961, was for \$9 million for an extension of the Western Highway. Project description in the annual report emphasizes

productivity and integration:

The new road should stimulate production on existing farms and open new land to settlement; it will also provide the first direct link between Puerto Cortes on the Caribbean in the north with El Salvador and Guatemala in the south, and should thus greatly reduce transport costs between the rapidly developing northwestern region of Honduras and the other two countries, contributing to the economic integration of all three. [pp. 6-7]

Reviewing the files, however, there is only one mention of an integrated plan of development and that is sketchy at best. [See December 12, 1960 Parker letter to Havlik.] After the credit was approved, there was further discussion on integration which refers to a Bill Diamond memo. [See July 14, 1961 Parker memo.] In the loan documentation to the Board it was argued that "an important contribution would be made to economic integration in Central America" by the project.

The highway traversed a densely populated (25% of total population) and poor region of Honduras with 65% illiteracy and subsistence farming. The extension, it was argued, would allow greater access to El Salvador and help meet its food needs.

With regard to local financing, the country was in a difficult position during the negotiation period. Interestingly enough, the files are littered with correspondence between the Bank and the Standard Fruit and Shipping Company, which had been going through financial constraints which affected the Honduran balance of payments position by decreased tax payments. [See March 9, 1961 memo.] There is no indication, though, of foul play or interference by the fruit company.

Total cost of the project was \$13.5 million, with \$8.1 million in foreign currency costs. The IDA credit met two-thirds of the project costs and a loan from the IDB was secured in the amount of \$2.25 million with \$2.25 outstanding--to be met by the Honduran government. There was, however, a large contingency item to cover unanticipated costs in the IDA credit, and in July 1964, when the project was nearing completion, there was a surplus in project funds of \$1.7 million which went to further extension of the Western Highway. It is clear that Honduras was exempt from having to provide local financing for the project.

You may want to note that poverty played into the project indirectly as the Bank argued that financing the highway project would enable the government to continue its social projects. [See March 3, 1961 SLC document, p. 2.]

Finally, you will be interested in the March 7, 1961 memo which discusses a per capita cut-off mark in IDA allocations--

showing that by the first operation this was a matter for discussion.

Jordan

The Bank found in February 1958, that there was no hope for lending to Jordan, not even in the remote future. Two years later, IDA financing was being considered and water supply projects were at the top of the list. In terms of "Bankability," water supply was not too far from the self-liquidating requirement in that income is generated in the form of water rates. [See August 7, 1961 Brakel memo.] However, in the loan documentation to the Board, three arguments are presented to justify the loan, first of which is for health considerations, then for tourism, and finally, and last convincing, for industrial reasons. [See December 1961 report, p. 11.]

The Bank insisted that 30% of total costs be financed locally. That condition was seemingly met but through contortions in the definition of local financing. In reality, only 6% of the project costs were met directly by the municipality--and those represent improvements that had been made by the city of Amman prior to the project. Contributions from future revenues generated by the project amounted to 11% of total costs, and the remaining 13% of "local contributions" came from the Municipal Loan Fund, which was financed by a U.S. grant to the Jordanian government. [See August 9, 1961 SLC memo.]

I found no evidence of U.S. pressures to finance any projects in Jordan. Finally, you will want to note the discussion on IDA eligibility for Jordan in regards to eligibility criteria in general.

David Brindley
August 10, 1994

STAFF LOAN COMMITTEE

SLC/M/60-30

October 25, 1960

DECLASSIFIED

FEB 28 2014

WBG ARCHIVES

Minutes of Staff Loan Committee Meeting held on
Friday, October 21, 1960 at 3:00 p.m. in Room 1006

1. Present:

Mr. J. Burke Knapp, Chairman
Mr. J. Rucinski
Mr. S. R. Cope
Mr. O. A. Schmidt
Mr. M. M. Rosen *
Mr. A. Broches

Mr. L. B. Rist
Mr. R. H. Demuth
Mr. P. J. Squire *
Mr. P. G. Ramm
Mr. H. G. A. Woolley, Secretary

In attendance:

Mr. H. N. Graves
Mr. W. Diamond
Mr. E. E. Clark
Mr. K. Iverson *
Mr. W. J. Armstrong
Mrs. S. Boskey
Mr. W. Brakel

Mr. L. Cancio
Mr. J. B. De Boeck
Mr. R. J. Goodman
Mr. R. Sadove
Mr. H. N. Scott
Mr. J. L. Upper
Mr. E. P. Wright

* Part only.

2. Jordan

The Committee considered Memorandum SLC/O/60-47 on applications for financing by IDA in Jordan; and

AGREED that

- (a) IDA should not finance the whole of a project;
- (b) in the special case of the Jordanian water supply projects, IDA should be prepared to consider the financing of approximately 70% of the total cost (external and local); the balance should come from Jordanian sources with a substantial part raised by municipalities either from new taxes or borrowings from local sources;
- (c) whether IDA's funds were used for local currency or foreign exchange expenditures should not be a material consideration;
- (d) while part of the costs of the projects might be met by an agency of a friendly Government directly in the 70% or indirectly in the 30% referred to above, it was important that no more than 70% of the cost of the projects be financed explicitly by foreign aid;
- (e) the projects should be self-liquidating;
- (f) IDA should require that the relending of the funds by the Government should be on conventional terms similar to those required by the Bank;
- (g) the mission should stop in Geneva on its way to Jordan to inform WHO of IDA's activities in this connection.

3. The meeting adjourned at 4:45 p.m.

STAFF LOAN COMMITTEE

SLC/M/60-35

November 30, 1960

DECLASSIFIED

FEB 28 2014

WBG ARCHIVES

Minutes of Staff Loan Committee Meeting held on
Wednesday, November 23, 1960 at 3:15 p.m. in Room 1006

1. Present:

Mr. J. Burke Knapp, Chairman	Mr. R. W. Cavanaugh
Mr. S. R. Cope	Mr. R. H. Demuth
Mr. C. A. Schmidt	Mr. A. Stevenson
Mr. M. M. Rosen	Mr. E. E. Clark
Mr. S. Aldewereld	Mr. G. M. Street, Acting Secretary
Mr. L. B. Rist	

In attendance:

Mr. W. Diamond	Mr. C. Duran-Ballen <u>1/</u>
Mr. K. Iverson	Mr. C. L. Kauffmann <u>1/</u>
Mr. W. J. Armstrong	Mr. W. L. Keltie <u>1/</u>
Mr. D. Avramovic	Mr. C. Lacayo <u>1/</u>
Mr. R. A. Chauffournier <u>1/</u>	Mr. R. Sadove
Mr. J. M. Croome	Mr. H. van Helden
Mr. F. d'Epenoux <u>1/</u>	Mr. R. W. Wilson <u>1/</u>

1/ Chile only.

2. Chile

The Committee considered the conclusions and recommendations in paras. 18 to 21 and 29 to 31 of the Report (WH 101) on prospective Bank and IDA operations in Chile; and

AGREED that

- (a) while an economic report would be necessary to evaluate Chile's creditworthiness fully, the amount of financial assistance expected to be requested for satisfactory projects would exceed Chile's creditworthiness, if all the financial assistance were to be made on a "hard loan" basis;
- (b) financial assistance should be a "blend" of Bank and IDA lending;
- (c) a mission should be sent to Chile as soon as possible:
 - (i) to appraise the feeder road project with a view to IDA financing;
 - (ii) to review the Government's agricultural development program to determine:
 - (1) whether any part could be put into effect immediately; and
 - (2) the kind of technical assistance needed to prepare an effective agricultural development program;

- (d) the Bank should explore further with the Chilean delegation expected in Washington next week the Government's need for technical assistance and might inform the delegation that the Bank would be willing to organize and finance a general survey of the south of Chile, with primary emphasis on agriculture and transport:
 - (i) to make recommendations on the immediate railroad problem; and
 - (ii) to prepare an integrated ten-year investment program for the area;
- (e) if the Bank were to arrange a survey, the Government should be asked to refrain from making further commitments for the railroads until the results of the survey are available.

3. Municipal Water Supply Projects

The Committee considered Memorandum SLC/O/60-50 on Bank lending for municipal water supply projects; and

AGREED that

- (a) these projects would be appropriate for financing by the Bank or IDA provided they could satisfy the Bank's criteria as to:
 - (i) economic priority and justification; and
 - (ii) financial viability;
 - (b) in order to determine the economic justification of specific water supply projects which may be presented to the Bank for financing, the Economic Staff should initiate as soon as possible a study of the measurement of the economic benefits of water supply projects, inviting the cooperation of other interested organizations or agencies.
4. The meeting adjourned at 5:35 p.m.

Chow

CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/M/61-11

March 9, 1961

DECLASSIFIED

FEB 28 2014

WBG ARCHIVES

Minutes of Staff Loan Committee Meeting held on
Tuesday, March 7, 1961 at 3:00 p.m. in Room 1006

I. Present:

Sir William Iliff, Chairman *
 Mr. M. M. Rosen *
 Mr. S. Aldewereld
 Mr. A. Broches
 Mr. L. B. Rist
 Mr. R. W. Cavanaugh

Mr. R. H. Demuth *
 Mr. A. Stevenson *
 Mr. M. L. Lejeune *
 Mr. W. Diamond
 Mr. G. M. Street, Secretary

In attendance:

Mr. H. N. Graves *
 Mr. E. E. Clark
 Mr. J. C. de Wilde *
 Mr. G. M. Alter
 Mr. R. E. Deely
 Mr. A. Geolot *
 Mr. N. A. Gibbs *
 Mr. H. F. Havlik

Miss A. L. Maher
 Mr. T. W. Mooney
 Mr. N. Parker
 Mr. P. A. Reid *
 Mr. P. Sella
 Mr. H. van Helden
 Mr. H. R. Young

Full minutes?

* Part only.

II. Honduras

The Committee considered Memorandum SLC/O/61-7 on Honduras; and
AGREED that

- A. the economic prospects of Honduras were sufficiently good as to raise the question of providing part of the proposed financing of the Western Highway Extension Project from a conventional Bank loan and that further consideration should be given to the extent of IDA participation;
- B. regardless of the source of financing:
 - 1. satisfactory assurances should be obtained from the Government of Honduras during negotiations that:
 - (a) the Government would promote the agricultural development of the Western Region;
 - (b) priority would be given to the project over any other highway construction work, and that the remainder of the funds necessary to execute the project would be provided;

2. as conditions of the financing, the Government of Honduras should undertake:
 - (a) to complete the acquisition of right-of-way for each contract section of the Extension before construction tenders are called;
 - (b) to retain consultants to supervise construction of the Extension;
 - (c) to present to the Bank (or IDA) for approval:
 - (i) the consultants' contract for the continuation of the highway maintenance program;
 - (ii) the terms of reference for the proposed Highway Planning Survey;
 - (d) to agree with the Bank (or IDA) a program for construction of feeder roads.

III. The meeting adjourned at 5:05 p.m.

IDA

Pre-sending to Bh.

Aug 11 59 SLC: Demuth ^{p.2} says it differs from IFC "because" it had not been fully discussed whereas IFC had been fully discussed before it came to [Board].^{Bh} But p.3 says "Bh had suggested to the OSA that IDA sh be a Fund & not a new instt."
& Sommers p.5. "Re. most of the things we were talking about, most of those in the US Govt we had talked to had said that the US position had not yet been formalized [were there talks after May summit?]"

Staff clearly anti "social": cf. Sept 3 SLC. But Dillon forced hand.

SLC 9/3/59 p3 Gope "artificial"

(Machioverthian)

Social

Demuth SLC 8/11/59 p7 "There sh be a lot of pressure for IDA to go into social projs." But Sommers replies "...this wd be the case at the drafting stage but not finally. The US might desire to counteract SUNFED." + Knapp adds "There was the counterargument that if you accepted public health ... it wd open up pressure to increase the sum transmembrsly."

Then "IDA=Bh" principle stressed. Sommers "IDA's loans wd be like the Bh's loan for the most part (?) " Demuth "It wd be partic important to stress this point at all times...!"

Black AGM 59 (Oct 2) remembers Stuenkel "soft loan but not soft lender" line. "... support only sound proj's of high developmental priority, & only in those countries who are prepared to follow sound econ policies." ^{partial compromise} ^{important} "high develop. priority."

Part language chosen to leave door open for social Oct 30 FPC
AS Black -
wants flex: 6/64
See ~~Sources~~ "Proposed compromise" Nov 4/59.

Oct 26 FPC: Lieftinck raises "social" Q. ^{Drumer} approved.

Briguone & Mejia pro-social. Mejia "dear" "There are some operations the Ok does not undertake, not for lack of legal authority, but because of considerations related to its need to borrow in the market." [✓].

US ED, Upton, reminds FPC that Secret Dillon at AGM said that "pilot proj's in the field of soc. overhead might be appropriate for IDA." p. 12.

Briguone on definitives: social Ok but not "unproductive" yet not opposed to "social" proj's as were prod in the CR. "high developmental priority" "self-liquidating". Code words. Finally invest "directly productive" (⇒ period before invest repaid? location of returns: inside proj physical scope or outside beneficiaries?)

cf. Hammarshild Oct 26 "soc + prod line not v. different"
Disc seems to create beginnings of awareness that "social" was productive. Partly, it is a rationalization or excuse making
∴ US politics already decided to compromise on social'.

Note: intense FPC discuss. over Oct on IDA. Handicapped by crudeness of concepts "productive" "social" "long term" "inability to borrow (Mejia says: often it's lender's unwillingness to lend"!).

IDA → deep fault line, but ~~was~~ not visible, & ^{weakness} st. of Ok's respectability & staff culture prevented sudden slippage. Instead, a continental drift began.

Idea of "explanatory memorandum" (became "Report of the ED's of ICRD on Articles of Agree of IDA" Jan 26 1960). Part of US compromise proposal of Nov 4 '59?

Colonial. Kupp's concern re. 'colonies & wards' seems now anti- rich country i.e. let's not use up our scarce ^{IDA} funds for countries already ^{being} taken care of. This fits with his early assumption that alloc shd be guided by relative poverty.

11/8/59 SLC: Sommers asks re. colonies. Says US draft excludes, but he wd not exclude but "there wd have to be v. special justification"!

Dillon: AGM 59

Downer: FPC Oct 26 some countries not viable at all so shd not get IDA.

- IDA → social
 - relative poverty
 - relax. local currency?
 - ↑ poor borrowers.
 - political leverage → fin of colonial "wards" (the US last resort phrase)
- (cf. former FPC 7/8/64 still objecting.)
 (cf. p. 6 id Rajan proposes Y cut-off of \$250 plc.)

June 13 '60 SLC. Knapp alloc list based on relative Y. Also bilateral donees ("wards"?) put in separate list (?): IDA "a last resort" lender. Esp Taiwan & Korea. & Libya. Israel. ~~IDA loans to~~ Knapp: IDA loans to colonies "a v. dubious proposition," i.e. wards of France & UK.

Rel. Pov Cavanaugh at 6/13/60 SLC p. 3 disagrees. Says ^{IDA + IAA} "should consider ^{Poland} + Argentina!" & then let [developed] have help poorer countries!

Early IDA credits

- 5/12/61 Honduras 9' highway (Western Highway + feeder) in subsist, poor area, & link S. Pedro Sula w. S. Guatemala + El Salv. [GET STOKY]. Stanford Road study came later - 1962; + "North Rd" loan in '65. Soccer War mid-69.
- 6/14/61 Sudan 13' dam Blue Nile (with IBRD loan) ^{is. Ghend.}
- 6/28 Chile 19' roads in south - earthquake.

6/21 India 60'. Roads.
Jordan Water. SLC 2/10/60. Aug 58 events: Nasser: ^{spy} to ring; dissolves Iraq union. CIA response to 8/58 8-senator letter prod milit + econ aid: MAP (Milit. Assist) "aid enables some govt to keep power by more or less authoritarian means" (decides incl. Jordan. Post 1958 Iraq Revolution! Marines land in Beirut! + UK troops) if not landed in Jordan. ^{Great}

Early assoc IDA-social

13/6/60 SLC p.9 discuss lending principles proposed in a "paper" (?)
 Prefers ARD to 'urban' water, sanit & housing. But Demuth "It
 seemed appropriate for IDA to help clean up health menaces."
 But Knapp hard line "better water" just removed one of the limits
 to crowding in the cities." [sic]. Proposes ARD in India.
 Rosen notes ARD wd be messy for IDA. But Knapp: "IDA had
 that missionary function." + "creation of IDA wd press the IDA
plus IDA into undertaking more things."!
 But Rosen insists on water! ^{Neglect was} just "his early 'mistake' +
 'just as important as .. power.' p. 10.

Demuth canny argument: "If IDA did nothing but IDA projects
 wd be a revival of support for ... SUNFED" !! [i.e. ^{IDA} sd incl. social!].

Rel. Poverty. By 1966 Woods (For. Affairs 44:2 Jan 66 p ²⁰⁸ ~~209~~)
 equates IDA w. poverty (not cw). IDA "established to finance
 "countries too poor to borrow at conventional rates."

Social FPC 27-8-59. Lee: "IDA emphasis² wd be on "productive...
 but social sd not be excluded." p. 7.

Donner FPC 30/8: IDA \approx SUNFED. IDA ~~not~~ purpose not social,
 tho. wd not exclude. Rather to py. Better, no refer. to social.
 Dillon ⁵⁹ ~~AM~~ Speech accepts pilot social proj's. (FPC 30/8) p 5

Jordan. Hussein crowned 1953 age 17. Strong nationalist opposition, favored by Palestinian refugees, Egypt, Syria, + Iraq. 1955-56 concessions to a nationalist parliament: expels Glubb. But affirmed rule [with MAP help?] + alliance w. West. April 57 sent emerg. econ + milit aid + Sixth Fleet vs coup. → ban parties. Iraq Revolution July 1958.

UK troops 1958 to prop up Hussein + protect their oil in Iraq.

Water justified partly by refugees. ^{SLC 21-10-60:} Knapp insists Jordan pay 1/2 or part. "It wd be unhealthy to give the proj to the municipalities as completely free gifts" [Face-saving!! Ashes for anything!] [? Did Jordan contribute? See Bd. Proceedings].

Knapp @ on why water: Rucinski says other proj questioned by Bk or GOJ or not ready; also water was high priority - for tourism!! Phosphate proj "but we had no indication that the Govt wd present it." Basic answer by Goodman: "Jordan had put these water works proj at the top of the list"!! stoppages + contamination.

Knapp insists on at least 30% Jordan share - even if part is window-dressing i.e. ^{donor} other aid.

IA precedents: Honduras West. Highway ??

- : Chile earthquake
- : Jordan water; no (low?) cost-sharing; proj imposed on Bk.
- : relative poverty criterion (Knapp. Pro-Indico Pakist.) Note arbitrariness: "BSP" ^{Bk(?)} _{engagement irrelevant.}

Water: SLC 23-11-60. Discuss Hows SLC/0/60-50 on ^{Bk(?)} leading for municipal water supply. Schmidt doubts urban migration sh. be encouraged!

Knapp says, ^{no to} water as amenity, & ↑ std of liv; yes to water wh will benefit the economy i.e. prefers indirect to direct ↑ std liv! (p 7)
 [Extraordin vagueness, insecurity of the discussion
 Diffic of measuring econ benefits: "similar to feeder roads."

Edue. p. 9 SLC 23-11-60. During disc. water, Demuth says "some countries think that educ shd be included in projts & be financed by IDA. This raises a differ." Knapp: "That raises another Q. entirely. That of ~~the~~ ^{the} market for [Bank loans]!"

Subsidies + "Revenue-Producing Projts" 31-1-61 SLC. Discuss ~~paper~~ ^{memo}
 SLC/O/61-1 (Rev.).

ARD. ~~31-1-61~~ 31-1-61 SLC p6. DeWille justifies subsidy to agric to offset normal indus subsidy!

Woods: June 22, 64 Memo ^{on} to IDA FPC June 16, 64 meeting. (p. 2).
 Says ^{with ↑} ag + edue scope for local curr loans was broadening.
 + With more IDA operations in new member countries where the level of dev. was v. low & local resources extremely limited IDA wd have to fin a relatively large propor of tot costs.
 Roll concurs. Lieftrach cautions ^{to be liberal but staff} "special cases" & "exceptional" circumst. p 4.

FPC-64-4 Paper FPC
Local cost 1949 Paper. 1953 instruction to staff - limited local curr fin to cases of countries wh. produced capit equip.

FPC/IDA. 18/6/64 Meet. Continues w. Local curr. fin. paper.

FPC/Joint IDA Ok "

+ (IDA/FPC 64-8 July 30, 1964)

Nov 26, 1963

-42

Rel. Y. 4-8-64 Meet. IDA FPC p. 6 on IDA Lending Policy (IDA/Sec 4463)

Rejan: "one of main criteria for IDA was low p/c. A cut-off point ought to be established at, say \$250 per person..."

Paper also proposes "special consideration" for U. poor + backward country who is making a real effort to do better.. !! [Loosening]

GET

Machado p. 7. contrasts Bank (never prevented from leading by lack funds) + IDA "comparable to a charity .. resources limited + needs immense." ∴ "rationing" complains that LAC only got 15' of 450' despite poverty + BOP needs.

Educ Lighthill at 4-8-64 FPC objects to Tunisia educ credit.

∴ "too ambitious"

Regional Relative Pov inside. IDA/FPC-64-8 raises Q of deal even + asks if IDA sh concentrate on backward regions, but no clear answer (Lighthill p 10). Failure of country approach. Esp ex. colonies: 5% rich + 95% "extreme poverty"

Mejia-Palacio cites history of SUNFED - IDA, and US promise that lending policy IDA wd = SUNFED (p 12) ida.

Mirza + Mejia debate ^{IDA} fairness & aid from other sources p 13.

p. 4. Educ Educ Borrower denies differ PSL - IDA
 yet says borrower might prefer IDA for educ

7-8-64 IDA FPC on Report IDA/FPC 64-8 on
IDA Lending Policy.

Reilly - criterion is GDP. (Jamaica)

Handfield-Jones: pov must be criterion ∴ Transfer in value
 + "only acceptable if from rich to poor."

Woods closes asking for administrative discretion & flexib. !!

Rel. Pov.

- country
- dual (poor regions)
- "fairness" to other donors/aid. Thus SA's colonial ~~status~~ status not a negative (help to another; guarantee; good administ) tho US words were a negative but more + rivalry + undercut influence. But rationing need of IDA → new situation → ethical use in introduced via (i) country degree poverty (ii) availability other aid - the ~~data~~ clearly reveals the legitimacy of this criterion.

Edeas '59 "embroid"

1961-62: SLC/ ~~the~~ water ok but edeas "that's differ"

1st no-no to breach lending policy

(?) where did water supply come from?

↳ infra

↳ Jordan caprice?

Get 1st paper/means on water lending.

↳ Summers "silly"?

WRITE
KNAPP.

Words

~~social~~: Needed protection vs social in general.

But don't use "social" + USA

2. Red conviction (the fuzzy) re. "productive" "consumerist"
"welfare" "directly productive"

What slowed ~~social~~ was India - Pak. big 3 IDA !!
plus de facto differential treatment IDA - Bh.

But: agr + edeas + water did a grad

did get BK financing.

Impact IDA. ~~Not~~ Hidden by size India - ~~the~~ where no ^{social} loans.

8 GS

Ruth Lituma

Enr. Matayoshi

STAFF LOAN COMMITTEE

DECLASSIFIED SLS/M/760

FEB 28 2014

WBG ARCHIVES

Rough Notes of Staff Loan Committee Meeting held on
Tuesday, August 11, 1959 at 3:30 p.m. in Room 927

INTERNATIONAL DEVELOPMENT ASSOCIATION

Mr. Sommers - He would start by discussing the things which the U.S. paper did not deal with.

The ideal charter should be broad and flexible. There was quite a wide variety of thinking on what IDA should do. The extreme view was that it should supply soft loans to supplement the Bank's loans. The other extreme, this was Larre's understanding, was that their entire operations should consist of projects of the type which the Bank would not finance, i.e., non-revenue infrastructure projects.

Most of the Executive Directors' thinking was pretty much in agreement that most of IDA's lending should be of the kind that the Bank would do except for credit-worthiness concepts. considerations

There was some talk that it might deal with a country like Argentina where there might be so much debt that the Bank did not want to lend.

There was the question about the inclusion of Dependent Overseas Territories. The U.K. and France insisted that they should be eligible and that they should receive a reasonable share from IDA.

The U.S. had said nothing on this matter but the U.S. paper as drafted would exclude overseas territories.

Mr. Sommers' position was that they should not be specifically excluded by statute but that there would have to be very special justification for IDA loans to them.

Mr. Cope - There was another category to be considered: the wards of the U.S., e.g. Korea.

Mr. Sommers - No one had suggested that Korea and Viet-Nam, etc., would not be eligible. It was a question of whether what IDA could do in these countries would be of any significance.

IDA expected to have available \$150 million a year for five years.

The currencies usable would be those of the more industrialized countries plus the 20% from the other contributors.

The U.K., Canada and Germany had pushed to make the contributions 100% convertible.

IDA could get about 75% of its capital from about 15 countries.

Mr. Rosen - Would there be convertibility agreements between the 15 countries for their 50% subscription?

Mr. Demuth - When this was completed it would not be so complicated.

Mr. Young - It appeared that wide realms regarding IDA had not been talked out at all.

Mr. Sommers - Questions could be ducked by having the charter in broad general terms.

Mr. Rosen - He did not see even \$150 million a year unless the \$1 billion were increased.

Mr. Sommers - The money was to be used in five years and ^{the} capital could be increased.

Mr. Knapp - This was a drafting point but at least two years' lead time would be needed to arrange an increase.

Mr. Sommers - He did not see how it could operate unless it was said how much money would be available. It would have to get into a regular swing of periodic replenishments.

Mr. Cargill - Would it do further borrowing from governments?

Mr. Sommers - That point should not have been in this paper. It was not important enough.

Mr. Demuth - \$1 billion was the negotiating figure of the U.S. State Department. The State Department would be prepared to see this considerably higher.

Mr. Young - Could the countries get the charter through their Parliaments if it was very vague?

Mr. Sommers - They had in other cases. They might get the part on special resources provided in local currencies (item 10) through on a vague basis.

People would not like to have built into the charter that the U.S. should shove through IDA as much as it liked of PL 480 counterpart funds.

Mr. Demuth - People had thought that the IFC precedent of using the Executive Directors to review the draft charter would be an easy way but the case was different for IDA as it had not been fully discussed whereas IFC had been fully discussed before it came to them. Here most of the major issues were unresolved.

Mr. Sommers - His guess was that the charter would be left very vague and that this would be considered an advantage rather than a detriment by the politicians.

Its lending would be small compared with the Bank's lending program.

Mr. Cargill - At the most optimistic it would be \$300 million a year.

Mr. Sommers - He thought it would continue to \$1 billion.

Mr. Knapp - It might get big by a foreshortening of the period and confidence.

If DLF were operating in the same territory and getting \$1 billion a year, IDA would be much overshadowed and at best a fragmentary solution. The U.S. operations would much overshadow IDA and the U.S. was likely to cover the residual program.

Mr. Demuth - It was not a U.S. affirmative program. It was (a) a desire to assuage Congress, and (b) a desire to keep off SUNFED. The U.S. thinking had been all on the negative side to accomplish these objectives.

They hoped by bringing everyone in on the subscriptions to stop the pressure for increasing the capital and so to keep down their contributions.

Mr. Sommers - The U.S. felt they should get Europe in more on the financing of the underdeveloped countries on an ad hoc basis as in the case of India.

IDA was essentially a compromise.

Some people said that it could not operate at the expense of DLF. It would be costly for the U.S. to try to do both.

Mr. Young - If the U.S. balance of payments continued to deteriorate, the U.S. would have justification for dropping its payments to DLF. They could more easily justify this if they had someone to pick them up.

Mr. Demuth - It would depend a lot on whether there were tied loans.

Mr. Rosen - To what extent would Congress support the Administration's position?

Mr. Sommers - The matter had been talked about with various Congressmen. He thought there would be no trouble in getting the legislation passed.

Mr. Demuth - One of the problems was to get countries like Mexico and Venezuela interested in IDA. There was a tendency of countries like these to say that they should get as much out of IDA as they put into it. If IDA's lending was scattered over all the underdeveloped countries it would be a difficult operation.

Mr. Sommers - The Bank had suggested to the U.S. that IDA should be a Fund and not a new institution. There would then not be any question of requiring a certain number to join and there would not be any universality of contributions.

The U.K. had not been averse to this but had not pushed the idea and Mr. Anderson had turned it down.

Formally *be made*
Essentially it was to ~~take the form of~~ a separate organization but essentially it would be a case of just new money. IDA was to have the same President, staff, etc., as the Bank.

It was hoped that countries would not come and ask for so much from the Bank and so much from IDA but that the Bank should decide on the amounts to come from each.

IDA would be satisfactory for the creditor countries and the extreme debtor countries. The question for the countries in the middle would be whether they were too rich to be soft free countries or not rich enough for the permanent export of capital.

The Bank had therefore suggested the fund approach. You could extend the tendency of this paper to make two classes of countries - the industrialized and the unindustrialized.

Mr. Cargill - A case could be made for the industrial oil-producing countries to provide more than 20% in hard currency.

Mr. Young - What were to be the terms of lending?

Mr. Demuth - Little could be said about this. Everyone wanted this to be left flexible. The U.S. was pressing for loans repayable in local currency and the U.S. did not want to admit the disadvantages of repayments in local currency.

The U.K. and others had grave doubts about this. They would rather see the loans made in foreign exchange with softness waivers, long periods of grace, etc. They did not want low interest rates as they felt this would throw doubt on normal government and commercial lending. They would probably prefer no interest to low interest although this was not a very well considered question. Thought had been given to the idea of an administrative charge to cover the cost of making a loan.

The underdeveloped countries were mixed on the question. Some of them would like to get away from someone outside owning a lot of their money.

Many of the recipients would rather have repayments made in local currency. Others would prefer the repayments to come back to IDA.

Mr. Rosen - Grants had not been mentioned?

Mr. Demuth - If they got in, IDA would be doomed as the U.S. Congress was strongly against them.

There might be some possibility of them with the supplementary contributions in the counterpart funds where conceivably there could be some grant authority for purposes of education and health projects.

The U.K. felt that IDA should be able to make equity investments.

Mr. Sommers - Most of the thinking supported the provision of permission for IDA to require a government guarantee if it considered desirable. The U.S. hoped that IDA would do a lot for private borrowers. The Europeans thought that its investments would be largely in the field of public utilities, etc.

The long-term low interest would probably require that lending to private parties should be through the Government or some intermediary.

It would be easier if the matter was left vague and each country told its own story to its legislature.

The U.S. definitely would not leave the door open to grants.

Mr. Rist - What about the use of local currency special contributions?

Mr. Sommers - There was misapprehension among the Europeans that such contributions would be local currency arising out of commodity sales which had taken place long since. The U.S. believed that they would be generated by sales accruing currently. They visualized tripartite negotiations, e.g. they would sell the wheat and negotiate that some of the funds should go to IDA and would negotiate with IDA for IDA acceptance.

The U.S. did not expect to turn over local currencies to third countries. This was at present the internal thinking; Congressional pressure might change the situation.

Mr. Demuth - Up to the present the counterpart funds could not be used outside the country concerned.

Mr. Sommers - It had been made clear that the currencies were to be used for IDA-financed projects and that IDA was not to be used as a clearinghouse for odd-lot deals.

Mr. Demuth - The U.S. wanted to go at it gradually. The Administration view was that they might get the position changed under Congressional pressure.

Mr. Sommers - Someone had said that it would be useful if IDA refused to take a lot of money on the basis that it had no use for grants.

The proposed charter would not exclude local expenditure financing.

Mr. Knapp - The Inter-American Bank had an exceptions clause for this and the same thing was expected for IDA.

Mr. Sommers - Not as regards the soft currency ^{contributions} part. The local currency could only be used for local projects.

Mr. Demuth - The real issue regarding the 80% used by IDA was that IDA in relending it to the country concerned would charge an interest rate.

Mr. Sommers - It was his understanding that Mr. Upton thought it quite likely that IDA would lend foreign exchange for local currency expenditures.

Re most of the things we were talking about, most of those in the U.S. Government we had talked to had said that the U.S. position had not yet been formalized.

Mr. Knapp - He understood that the U.S. was moving more and more to using the 80% as window-dressing.

Mr. Sommers - The U.S. might think of lending back the 80% to countries or forget about this. Some of the U.S. representatives did not think they would have to lend back the 80% to get it off IDA's books.

Mr. Demuth - IDA would then have to invest in a great number of projects and this would involve a great amount of administration.

If IDA did not use the 80%, when the matter came up again to the legislatures they would say that it had still got \$200 million unused.

Mr. Sommers - It had not been so in the case of the Bank.

Mr. Demuth - Would it not be much clearer in the U.S. paper if the 80% was not to be used and not to be subscribed.

Mr. Rosen - That was not the U.S. position.

Mr. Demuth - Were the meetings of the Executive Directors on the subject intended to be an international treaty proceeding?

Mr. Sommers - If the Executive Directors had their government's views they would express them. Otherwise, if they had views they would indicate that they were personal.

The Bank would prepare a paper and the Executive Directors would send it back to their Governments. After the draft charter had been prepared it would be sent again to governments and they would thus get a chance to comment on it.

In reality it would be Mr. Demuth who would draft the first charter.

Mr. Demuth - The idea would be to get a debate going amongst the Executive Directors so as to obtain views.

Mr. Sommers - The Bank staff would be under severe limitations in the drafting. It would have to come within the discussions of the Executive Directors.

If Mr. Black wanted to, of course he could come out and say that certain parts would be intolerable. If it was desired that the charter should be left vague, it would not give Mr. Black much to stand on.

Mr. Rosen - The first paper prepared would have a lot to do with freezing the charter's final shape.

Mr. Sommers - We had got in convertibility in IFC. We had got the germs in through others and finally they had said they might as well have the capital in dollars.

If the Executive Directors all sat back and said nothing it would be difficult.

Mr. Young - Was not the timing tight? Were the Executive Directors to produce by December?

Mr. Sommers - The U.S. would like to produce its legislation in February.

The Erhard dinner would be attended by eight of the Finance Ministers before the Annual Meeting. At most this would be an IDA pep rally.

Mr. Cargill - The Germans planned a three-day meeting.

Mr. Sommers - This was to brief the Finance Ministers.

Mr. Knapp - Following the discussion of the Executive Directors, Mr. Demuth would have lots of ways he could go. The worst handicap would be if no one wanted him to go anywhere.

Mr. Sommers - On the capital subscription, you could not be vague. On the operations you would have to be vague but you could have an explanatory memorandum of how IDA would operate if you wanted to.

Mr. Demuth - Australia felt that they should know what IDA was going to do as they felt they would have no chance to guide its operations after it was established.

Mr. Sommers - He had nothing to say on how IDA would allocate its resources except that it would be on vague standards of need and priority.

There would have to be a mental appropriation of IDA funds amongst the various Area Departments. We would have to have some kind of real allocation system subject to change.

It was a question whether the funds would be spread out or used for really dramatic big things at longer intervals. He thought that the former would be the case and that the funds would be used as projects came along.

- Mr. Knapp - Anything done to increase the amount available would minimize this problem.

There was no prospect that the amount of funds and allocation would be brought into harmony. This would have to be dealt with on an arbitrary basis.

Mr. Demuth - There would be a lot of pressure for IDA to go into social projects.

Mr. Sommers - He felt that this would be the case at the drafting stage but not finally. The U.S. might desire to counteract SUNFED.

Mr. Knapp - There was the counter-argument that if you accepted public health projects, for instance, it would open up pressure to increase the sum tremendously.

Mr. Rist - You might start by showing that more funds were required ^{or by pointing out} the limitations and build policies on that basis.

Mr. Sommers - It was a question what was to be the division of functions of DLF, IDA and the soft currency part of the Inter-American Bank.

Mr. Knapp - IDA would precede DLF.

Mr. Sommers - He did not see why the IDA should lend in countries where the Bank refrained from doing so on the ground that the country was using its resources so badly that it was being disciplined. In the case of Argentina, after the Fund stabilization program and if Argentina was doing the right things, IDA might step in more promptly than the Bank would want to do.

If health and additional projects were to be included, IDA would present a much bigger problem in its operations and administration.

Mr. Hooker did not think that IDA would get much from PL 480.

Mr. Sommers - He hoped that the charter would be left quite unprecise. He did not dislike that. It was a long-term thing and it would be influenced a good deal by what went on in DLF.

The good things in the Bank's charter were the vaguenesses.

He would have liked something somewhat larger but not too big. IDA exposed us more to Congressional scrutiny. There was to be a review by Congress every year for appropriations.

There might be a good deal of eyebrow-lifting about the Bank getting into soft lending. He would not mind at all sliding into this gradually.

He did not like the split of stock which should be 100% for the industrial countries and much lighter than 20% for the non-industrial countries.

Replenishment should not have to follow.

Mr. Knapp - He would not like the Congressional scrutiny and as an international organization we could not take this.

U.S. treaty commitments were subject to appropriations and the Appropriations Committee was accustomed ~~to~~ the presentation of an illustrative program. Would we have to do this? ^{to}

Mr. Sommers - There was a good excuse for not doing this as the U.S. would be putting up only a part of the money.

Mr. Knapp - He did not think the Treasury could make the presentation.

Mr. Cavanaugh - If, for the purpose of the capital subscription, Mexican pesos were considered to be fully convertible, it would make difficulties.

Mr. Knapp - They could be convertible but tied.

Mr. Cavanaugh - If a member paid his subscription in Mexican pesos, would we require the member to convert it? Some currencies might have no buyers. If you did get Mexican pesos who would you get to buy them?

Mr. Sommers - We would have to try to sell them.

Mr. Knapp - Why would we not get the amount in dollars or gold?

Mr. Sommers - The fight would not be worth the candle. It was meant that they should pay in any genuinely convertible currency.

Mr. Knapp - Why should we not oblige the country to convert it?

Mr. Sommers - This was not worth going into.

Mr. Kamarck - We could go to the Mexican Central Bank if Mexico's currency was convertible by agreement with the Fund.

Mr. Sommers - Much more important would be a provision that countries would maintain uniform rates of exchange. Thought and interpretation were needed to this.

The idea would be fair if there were a lot of convertible currency and IDA would not draw all the U.S. dollars down. The U.S. meant it to be an operating principle and not exactly a mathematical one.

Mr. Schmidt - Would there be repayment in the currency used to get the dollars?

Mr. Sommers - There would be a difficult case there. We would have to worry whether everything was done in dollars.

If we used the currencies proportionately it would mean using little tranches of different currencies.

Mr. Rosen - There would be no problem as all repayments were to be in dollars or local currency. Otherwise there would be difficulty.

Mr. Young - Would the same disbursement procedures be followed as for Bank loans?

Mr. Sommers - More or less. IDA's loans would be like the Bank's loans for the most part.

Mr. Demuth - It was to remain a hard institute in standard of performance. *It would be particularly important to stress this point at all times when information was given about the purposes of IDA.*

Mr. Rosen - The 50% provision was impractical as it now stood. *information was given about the purposes of IDA.*

Mr. Sommers - Mr. Black should take a position on this.

There was a growing tendency to tied loans in the U.S.

IDA would have no separate Executive Directors' Board although some of the representation might be different, e.g., China might not join IDA.

Mr. Mendels - There would then really be an IDA Board.

Mr. Sommers - Yes, but it would not be run the same as IFC. The same meetings could be used with separate votes being taken as necessary.

The meeting adjourned at 5:05 p.m.

HGA Woolley/hmf

STAFF LOAN COMMITTEE

Rough Notes of Staff Loan Committee Meeting held on
Thursday, September 3, 1959 at 3:00 p.m. in Room 1005

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INTERNATIONAL DEVELOPMENT ASSOCIATION

Mr. Sommers - The purpose of the meeting was to discuss some of the points on which guidance was needed from Mr. Black and which would not be provided for in the charter.

We should go into these before we got into discussion on the operational questions on p. 3 in the very tentative paper on the Bank's position.

Area of Operations

In drafting the paper, in the references to the dependent territories, he had not taken account of Spain and Portugal.

We should modify the language to indicate that we would be willing for IDA to make investments in dependent territories when the metropolitan country was not eligible for more Bank lending.

Mr. Cope - Would this be limited in the explanatory memorandum?

Mr. Sommers - He would prefer to have the charter in general terms with no special mention of it.

Mr. Knapp - The colonial powers would want to get it mentioned.

Mr. Sommers - Rickett wanted it to be stated that the colonial powers would get a reasonable percentage of IDA's resources.

Mr. Broches - Could not this be taken care of by providing that no one would be eligible if they could get the loan required from the Bank.

Mr. Sommers - In many cases he visualized joint operations of the Bank and IDA and would prefer to be somewhat vague about eligibility or the criteria for eligibility in the explanatory memorandum.

Mr. Iliff - If the metropolitan country were creditworthy, would IDA lend?

Mr. Sommers - No.

Mr. Iliff - If the converse were the case?

Mr. Sommers - Yes. It was a hard question to say the circumstances under which loans could be made to British, French or Belgian colonies through IDA. However, IDA would not have to wait for a country like Nigeria to become a separate member before it lent to it.

Someone had said that there might be a case for IDA lending in territories which could not so far afford Bank lending, even in local currency terms.

Mr. Knapp - E.g., the Trinidad case.

Mr. Sommers - He did not see that it would be easier to make IDA loans repayable in those cases.

They could neither be creditworthy in Trinidad sterling nor in U.K. sterling.

He was against siphoning major portions of subscriptions back to the metropolitan countries.

Mr. Cargill - In the U.K. they had CDC, CDFC, etc. If the U.K. wanted to step up development in the U.K. colonies it could afford to do so, in addition to contributing to IDA.

Mr. Sommers - There was also the balance of payments position in the U.K.

In a normal case he would agree with Mr. Cargill.

IDA should not be used to replace the furnishing of capital from the parent country to a territory which the parent country should provide on its own.

You run into clauses "B" and "C" in this discussion.

Mr. Cope - If this was to be neither in the charter nor the explanatory memorandum, why should we cross this bridge now?

Mr. Sommers - We were not trying to cross the bridge now but to be ready when the question arose. It was desirable to get attitudes now.

Where the mother country was in suitable shape there would need to be some special justification for lending by IDA.

Mr. Knapp - There was a gap between the less developed areas.

Mr. Sommers - He did not mean to exclude the countries in Group II of Mr. Knapp's list.

Mr. Knapp - Mr. Sommers had said that IDA loans would be restricted to the less developed countries. The emphasis would be on the more undeveloped countries.

Mr. Sommers - Re the points for consideration by the Executive Directors, p. 8, B, he did not see any way out of putting something in general terms of this kind in the explanatory memorandum.

We might want to discuss the urgency and need. Could we or should we be more specific?

Mr. Perry - Mr. Sommers had mentioned a reasonable share of the resources of IDA. Should they be earmarked on some sort of geographic plan?

Mr. Sommers - Not publicly, but he thought that there should be some idea each year on how IDA's investments would be divided. IDA was unlike the Bank because it would have a fixed amount of money for a fixed period of time.

Mr. Knapp - Allocation would be the most difficult problem. There would need to be some form of rationing.

Mr. Sommers - We would have to be very careful to keep IDA's commitments to \$150 million a year.

Mr. Cargill - As far as the Far East Department was concerned, the main difficulty would be to find projects that were good enough. This was a real problem for DLF at the present time.

Mr. Sommers - The reason he did not want to use the word "allocation" was because it meant to DLF an amount that had got to be used.

Mr. Knapp - What would IDA do about India? It could take up any amount.

Mr. Sommers - India could not be excluded but would have to be put on a quota basis.

Mr. Cargill - In the Far East, in the early years, not very much from IDA would be used.

Mr. Sommers - You could not assume in the case of IDA that the money would be there as in the case of the Bank. There would have to be a continuing checking by Departments to see how high up they could go.

Mr. Young - If the allocation were made by regions, Africa would come out rather badly.

Mr. Sommers - We would not put the allocation for the year in the Annual Report. We would not emphasize the differences between IDA and the Bank.

Mr. Perry - We would sort out the matter and if the aggregate were oversize, we would lop off some.

He did not see all of this going to India.

If a good project were brought in, it would be all right, but we would not pile up more than they could handle.

Mr. Cope - We had got to contrive artificial alternatives to the creditworthiness limits we used now.

Mr. Sommers - We would have to have some idea of where the money was going.

If we got the money for five years, should we rush ahead and use it, and at the end of three years ask for more?

He felt we should stick to the five-year period for the replenishment or we would be likely to get IDA on a one-year basis.

Mr. Avramovic. - If the projects became so good we could raise the question of increased contributions.

Mr. Sommers - He would prefer to keep IDA on a five-year basis rather than get on a one, two- or three-year basis.

Mr. Knapp - He was inclined to agree. If the amount was only \$1 billion because there was no use for more and the limit was on the basis of the amount that the U.S. was prepared to subscribe on a multilateral basis to this kind of thing, he would say that the deal should be on a five-year basis and then we would either hope to get rid of it or that the U.S. would have more confidence in this type of multilateral distribution and be prepared to commit more.

Mr. Sommers - This posed some dangers to the Bank. We would be supplicants to the Governments for money. Here would be the advantage of the five-year period. There would always be the tendency of Governments to put up only one or two years' contribution at a time and there would be the chance that IDA would be inactive.

Mr. Knapp - The U.S. or other countries could step up their contributions if they wanted to, but we could not count on that.

Mr. Sommers - It would be better to try to get replenishment in larger amounts and more frequently.

Mr. Cope - He agreed.

Mr. Knapp - We were confronted by \$150 million a year as a commitment basis.

Mr. Cargill - IDA should still insist that the projects in which it invested were of top priority. ||

Mr. Sommers - People dealing with India, etc., should not commit all the funds so that none was left. We had to take into account that countries had DLF to deal with, and DLF's dealings would be really different. We had to feel our way to see what IDA would get.

Mr. Knapp - We would err if we thought of IDA as the sole source. IDA's investments would not be the residual element. The U.S., including DLF, would be the residual soft lender.

IDA was not intended to meet every need around the world. The U.S. was to fill in behind IDA. |

Should there be any idea that a country like South Korea should get back what it put in?

Were there not cases in which countries were sufficiently established as wards of the U.S., to be treated paramountly as colonies. What we put in in those cases would only be a tiny fragment.

Mr. Sommers - He disagreed with that. While IDA would only be able to invest in Korea and Viet-Nam on a token basis, he believed it would be helpful to the Bank and to these countries occasionally to have relations with the Bank instead of having them all with the U.S. |

He felt this would help the U.S., the Bank and the countries concerned.

Mr. Knapp - Yes, that would be helpful.

Mr. Cargill - All the good projects in South Korea were being financed by the U.S. Viet-Nam was in a different position. Over the next four years Viet-Nam could get to the point where it would not be so dependent on the U.S. IDA could do good in establishing contact with Viet-Nam.

Mr. Knapp - Perhaps we all agreed that if a country could obtain enough from other sources, IDA should not waste any of its money on them. |

Mr. Sommers had agreed that subscribers should have no right to get their money back. He did not think that they should have. This idea would grow on us if we did not watch out.

Mr. Sommers - Group III in the list of countries would tend to get back more than they put in. There would be less chance for the Group II countries to get anything out of IDA.

IDA might start with a relatively small number of countries, provided there were enough in Group I.

The Bank had started with 27 countries.

Mr. Young - Why was it stated that only member countries could be included in operations?

Mr. Sommers - He could not conceive that any country which did not join would be eligible to receive from IDA. The whole idea of throwing over a fund, was to get contributions from those who would benefit.

Mr. Iliff - If a member country was not creditworthy but could become so if they took the right action, should IDA lend to them?

Mr. Sommers - He felt not, but perhaps IDA would not parallel the Bank in every detail in this respect. It should not lend where the Bank refused to lend on the grounds of default by the country.

IDA might go in in a case like Argentina, if you assumed that Argentina was doing everything that the Fund and Mr. Knapp wanted them to do and still had more debt than would be tolerated by the Bank to make a loan. In that case IDA might step in earlier.

Mr. Knapp - He felt that the answer was that IDA should not lend to countries whose lack of creditworthiness was due to their own mismanagement. Actual cases would be very difficult to judge.

In the case of Turkey the decision would be an easy one.

It might be harder where creditworthiness criteria no longer existed and determination had to be made.

Mr. Cope - He did not think IDA should lend to Greece under its present circumstances.

Mr. Sommers - In general, money should not be lent out of IDA if it was felt it would be wasted. It was hard to conceive a case where, despite bad management, it would be worth lending except in cases like Iran.

He would be afraid of including a "performance" requirement.

Projects

Mr. Sommers - Here a wide range of assumptions had been made. Arnold had said that he felt IDA should join in Bank projects. Larre had said he assumed IDA would finance non-self-liquidating projects which the Bank would not finance.

The line we had taken was that joint financing would be usual and normal but should not be given particular emphasis.

~~He felt that the general field of Bank projects should be the normal but should not be given particular emphasis.~~

He felt that the general field of Bank projects should be the normal field of IDA projects but that others should not be excluded.

Municipal waterworks and sewerage systems might be somewhat unusual. Health and educational projects would not be excluded by name but would not be likely to be financed as foreign exchange projects.

Mr. Iliff - What was SUNFED to have done?

Mr. Sommers - Social overhead projects. No one agreed on what these were.

Mr. Knapp - If IDA found no other suitable project, it could reach out for a suitable vehicle for lending.

Mr. Sommers - He felt that a good deal of talk about financing social overhead was just atmosphere and would not be pressed hard except perhaps in the case of waterworks.

Mr. Avramovic - What about education?

Mr. Sommers - There was a feeling that the rates were terribly high but it would be most difficult for an international organization to get embroiled in this. It could make a very small percentage contribution with little influence.

Mr. Young - What about hotels?

Mr. Sommers - No.

Mr. Broches - He had doubts on C. 2. There would be an immediate rush of statements by some countries that they needed an institution to do other financing. There was some question about this attitude but those more concerned were going to raise objections.

Mr. Sommers - In a country where the Bank did nothing, like Jordan, if there were highway and educational projects, would it be better for the Bank to do an educational project?

Mr. Labouisse - No.

Mr. Sommers - We should not use the words "directly productive." There should be language in the explanatory memorandum to negate expectations of the financing of projects entirely different from those financed by the Bank.

Mr. Knapp - Here we are just talking about IDA and IDA was to be under the administration of the Bank. The Bank had achieved expertise in some fields. We could say that if there was a choice we would go into things in which we were experienced.

Mr. Broches - He agreed with Mr. Sommers but felt that the presentation might be difficult.

Mr. Sommers - He wanted to negate the idea that IDA loans would be soft in the uneconomical project sense.

Mr. Young - We could instead indicate projects directed to economic development.

Mr. Sommers - This would not accomplish the objective.

Mr. Cope - It was more a question of words. We should give a strong hint that IDA would not lend in the social field, without excluding it.

Mr. Sommers - There might be some inference that IDA would be more receptive to things outside the Bank's field than the Bank was.

Clause D

Mr. Sommers - Was there any disagreement to this?

Mr. Knapp - He felt we should go slow on this and continue to press countries to mobilize local currency savings for this purpose.

Mr. Sommers - If a country was creditworthy to absorb a lot more loans, he could not see why IDA should finance local currency expenditures.

It would be bad if IDA became a vehicle through which to obtain local currency money in order to circumvent some Bank principle. This was something that need not go in the paper, but should be kept in mind. ||

Mr. Knapp - We would not want to put IDA money into a country which was dollar creditworthy at the expense of a country which was not.

Terms of Financing

Mr. Sommers - Would anyone oppose this? E(2) assumed the charter would be broad and flexible. What were the ideas as to the preferred lending pattern?

Mr. King - He would prefer repayment in foreign exchange with terms as liberal as one liked.

Mr. Young - Would you not be just adding on to the heavy debt burden in this way?

Mr. Knapp - The interest charge might be very low or even a 1/4% service charge substituted. We should not have a bogus burden which could store up troubles in the future.

Mr. Avramovic - He agreed. We should introduce a waiver clause.

Mr. Cargill - We should not be so horrified in the case of IDA if we had a default. ||

Mr. Sommers - We might incorporate in the Loan agreement the right of the borrower to postpone or a more receptive attitude on IDA's part to postpone payments.

Mr. Cargill - This would take care of a good deal of what was worrying Mr. Young.

Mr. Perry - The thought in the Bank was that it would develop a very long-term notion of creditworthiness. He would like to keep the door open in IDA for local currency payments.

Mr. Sommers - He was talking about the normal pattern.

Where only grant aid was appropriate and you could not get grant authority, we might want to have some way to approximate that kind of assistance.

Mr. Perry - He would like flexibility but with provision to use local currency where it made sense.

Mr. Knapp - He did not know where it would.

Richard,

I think you will
find the discussion
here interesting.

David

STAFF LOAN COMMITTEE

Rough Notes of Staff Loan Committee Meeting held on
Monday, June 13, 1960 at 10:00 a.m. in Room 1006

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INTERNATIONAL DEVELOPMENT ASSOCIATION

Mr. Knapp - He felt that the progress report of the Committee was very helpful. He was happy about the trend of thinking and was generally in agreement with it. How far, if at all, should we have some targets? He thought the Committee had hit this about right.

We had to take the risk of some of these figures leaking out. Any long country allocation list would be undesirable. However, in the case of India and Pakistan it would be difficult to proceed without a ceiling.

That the principal priority should be given to the poorer of the Part II countries was reflected in the attached lists.

There might be changes which should be made in the lists but it would not be useful to debate that now.

The principle was adopted in the classifications of putting in column III those countries receiving bilateral assistance enabling them to carry out their priority projects over the next several years. *wards?*

This put IDA in a position of being a last resort lender.

As a practical matter, had this principle been applied? It was true for China and Korea. Korea was a ward of the U.S. and their financing was being done by the U.S. and we should save our fire for cases which were more meaningful.

For general political considerations, he felt that wards of the U.S. should be as eligible for IDA funds as colonies of the Western European powers.

Mr. Demuth - On the one hand, the Preparatory Committee felt that Korea and China should be eligible if a good project came along, but that we should tend to keep the amount low.

On the other hand, in the case of Libya, where a large amount of their financing was done by the U. S. and U. K. and there were not many projects, there would not be a good case for the use of IDA funds.

Mr. Knapp - Libya was coming into oil.

Mr. Demuth - Not for the first five years of IDA.

There was a feeling in the committee that Korea and China could get up more projects than Libya.

Mr. Knapp - In the case of Libya we would be taking into account what others were doing.

Mr. Demuth - If financing were made under a programmed political decision, rather than just a project for DLF.

Israel was another case.

Mr. Knapp - He felt that lending by IDA to colonial territories was a very dubious proposition.

If IDA financed African wards of France and U. K., it might just as well finance wards of the U. S.

Mr. Demuth - Where the member countries were unwilling to pledge additional credit and the ward could usefully employ it, it would be all right to utilize IDA funds.

Mr. Knapp - The Committee expected the Colonial powers to provide financing at the historical rate and not to have IDA pick up the white man's historical burden.

In the case of the French Community there would be a diminution of the historical pattern.

Mr. Demuth - There would be the same problem in the emerging territories which would have Colonial Development and Welfare funds cut off.

Mr. Knapp - It was a problem when to go to the Executive Directors about IDA's policies and procedures.

The part in the paper about countries receiving bilateral assistance should be given a little more thought before the matter went to the Executive Directors.

As a point of curiosity, was Chile put in Column I ex earthquake?

Mr. Schmidt - Yes.

Mr. Knapp - We had a proposal for Chile. Schneider wanted grant aid, surplus commodities and a drawing on the Fund.

He had suggested the issue of Chilean bonds guaranteed by the Inter-American Bank to get European help.

This was not very sensible. The Bank had discouraged the proposal and had pointed out that this was not a good approach to the European bankers.

We had said we would support him with the U. S. Government on grants in aid and had indicated that if they did not incur too many debts, we might be able to make a loan.

We possibly could take up a project following the joint Bank/FAO Mission and would look at plans for agricultural development and farm marketing roads.

There might be a case here to show exceptional circumstances for a local currency loan. A lot of their expenditures would be in local currency and if we wanted to show a spirit of sympathy it might be manifested that way.

Mr. Rosen - His silence should not be taken to mean concurrence. He thought that there was unanimous agreement on the need to set a maximum in a couple of cases, i.e., India and perhaps Pakistan. It would not be desirable to set a maximum for others. The maxima would become known very quickly and he felt it to be undesirable to set up categories.

Everyone in Column III did not want to join.

Also he felt we were going into operational techniques too much in advance.

IDA should not start with too big a bang in any case and could set maxima where needed.

Mr. Cavanaugh - He agreed wholeheartedly with Mr. Rosen.

We only needed a limit on the one or two big ones.

He felt IDA should invest in Bolivia, etc., where the Bank did not operate.

IDA should wait and see what happened in Argentina and should do something in countries where you could do it quickly. These countries could in turn then do something to aid the poorer ones.

Mr. Knapp - There was the question of the allocation of IDA's resources over the five years for which they were made available. This was a subject on which governments would have to speak.

It seemed to him to be essential to ask the governments what they meant in this connection.

If IDA were objective, it could get rid of money awfully fast. Would we set forth to get rid of it as fast as we could to demonstrate the need, or ration the allocations over five years?

The Executive Directors and governments had to determine this.

Following the proposal in the paper, IDA would run out of money to commit before the end of the five-year period.

Mr. Demuth - His idea was that by the end of a couple of years IDA would have committed \$400 million and that the matter should then be taken up with the Executive Directors. He felt that IDA should take a fairly rapid initial pace.

Mr. Knapp - Could you keep this policy hidden for long? You would have to talk in advance about commitments over a period of time in such cases as India.

Mr. Nehru thought that IDA should spend as fast as possible, i.e. \$400 million over the next two years.

Mr. Knapp felt the general question should be raised with the Executive Directors.

Mr. Demuth - Mr. Nehru and Mr. Meja had been out-voted on this.

Mr. Knapp - You could not leave this for a couple of years.

Mr. Demuth - If you brought the matter to the Board, you would have to say that you were thinking of \$400 million for the first two years and was that right? They would be likely to accept this.

Mr. Knapp - It was his feeling that the creditor countries would feel they were being pressed pretty hard unless you got the express approval of the Executive Directors.

Mr. Demuth - He did not think the figure would be reached because of time limitations and personnel requirements.

Mr. Rosen - The Executive Directors had to approve each investment.

Mr. Knapp - If we waited till the time each project came to the Executive Directors, we would be in a difficult position.

Mr. Rosen - He felt that the Board would get the feel of this too much in advance.

Mr. Knapp - It would be brought up because countries like India would want to know IDA's policy.

Mr. Rosen - We could talk of an upper limit to the resources available.

We could say we did not know how fast the money would go and that we would try to see where good projects could be worked up, etc.

In case of consortium discussions in the meantime, we would not want to get too much committed in the first 18 months to two years.

Mr. Knapp - Mr. Rosen and Mr. Cavanaugh favored a three-year spread of commitments and contemplated a situation in which there would be two years with no new commitments.

Mr. Cavanaugh - He felt that in the fourth year IDA would have to get commitments from the governments for more money and that IDA would have difficulty in finding sufficient suitable projects.

Mr. Knapp - He would like to commit \$400 million if the Executive Directors approved of this policy.

He did not see how IDA could plan, otherwise, without the management being condemned for forcing governments to come up with new money before they were willing to do so.

Mr. Demuth - Commitments would be made largely in the second year. By then we would probably have some sense of the feeling of the Executive Directors anyhow. If we wanted to get their reaction, we could have informal discussions with them.

Mr. Rosen - We could not do this until after January when the U. S. position on IDA would be known.

Mr. Knapp - The key governments in the picture were U. S., U. K. and Germany.

Mr. Demuth - If we talked to the governments outside the Executive Directors' table, we might be able to get agreement.

Mr. Rosen - After three years people would either think IDA to be worthwhile or it would fritter away.

Mr. Knapp - The question would have to be faced by the U. S. administration next year. There might be a decision to double the amount in a year or two and then to reconsider the matter in five years.

Mr. Demuth - IDA should get going but not out of control.

Mr. Knapp - This was something for governments to determine and it would be pushing them a little too hard not to get their views on this.

Terms of Lending

Mr. Knapp - Para. 14 showed the standard pattern. It did not show how variations would be contemplated. What discussion had there been about local currency repayment?

Mr. Demuth - The Committee felt that that should not become a standard pattern. There was a lot of feeling that it had come into disrepute, and that it was a fraud on the taxpayers in the advanced countries or in the recipient ones.

It was felt it would be better to have the obligation perfectly clear and to make grants free of interest if necessary. It was not impracticable to say they could pay back in 20 years. If, in the 17th or 18th year, the obligation appeared to be too much of a burden, the repayment schedule could be rearranged.

Mr. Rosen - The Committee had not been unanimous on the local currency point.

Mr. Knapp - Except for the clause to cover variations in the foreign exchange schedule, the intention was more to extend the period than to soften the currency.

Mr. Squire - Was the 20 years of grace unanimous and, if so, what was the logic behind it?

Mr. Knapp - This meant a 5% annual charge plus interest and the amount would be fairly substantial due to the very long grace period.

If you left the financing for 20 years without any payment, he questioned whether it would be a meaningful obligation at all. If it was to be meaningful, it was a long period for service to lie fallow.

He would like to suggest service after ten years and to stretch the term to 50 years with amortization reduced to $2\frac{1}{2}\%$.

Personally he preferred a reduced rate of say 1% for the first 10 years and 3% for the last 30 years.

Mr. Demuth - The Committee had agreed there was no logic in the term. They were trying to get as close to a grant as possible. It was a matter of hunch and taste, and perhaps Mr. Knapp's suggestion was more attractive.

Mr. Cavanaugh - The Bank made 20-year loans and IDA might pick up after the Bank loan.

Mr. Knapp - He felt that perhaps the Bank should push out to 30-year loans.

Mr. Cavanaugh - He did not feel that the Bank should do many of these.

Mr. Cope - He liked Mr. Knapp's suggestion.

Mr. Rosen - Some countries could not pay any dollars now and for a long period you might not be able to tell whether they could.

Mr. Knapp - In countries like Ethiopia, Sudan, Burma, Chile, Bolivia, etc., where they had a strong resources base, it would be all right. In the case of Haiti you probably have to allow local currency repayment.

Mr. Demuth - The U. S. was using a fairly substantial part of local currency repayments for U. S. uses of various kinds. We would not be able to use them to any similar extent.

Mr. Cope - It would be difficult to give a variety of terms to suit different cases.

Mr. Knapp - He agreed.

Mr. Demuth - He agreed with Mr. Cope in general.

Mr. Cope - We could apply standard terms to Haiti and Bolivia, and we would always have the option to change these terms in 10 or 11 years.

Mr. Knapp - The option was referred to in para. 15.

He got the idea that IDA would only take local currency as a relaxation of the agreed terms.

Mr. Cavanaugh - We would have to wait till we knew the facts.

Mr. Knapp - This argument was unassailable, but we still had the practical problems.

Would there be a formula under which we would have a claim if things went especially well?

Mr. Demuth - He had thought of putting in a windfall provision. He felt that in a case like Jordan, if they became rich, we should have some peg on which we could base a requirement for a change in the payment period, etc.

Mr. Cope - He was against any moral obligations in the agreement. It was very difficult to make effective use of them and they might cause bad relations.

He would rather rely on the borrowers' right to make accelerated payments without any consultation clause. He would prefer that there should be nothing in it about the hardening of terms.

Mr. Knapp - The U. S. was going rather far in trying to make provision for windfalls.

Mr. Demuth - The majority view on this might be useful.

Mr. Cavanaugh - A country might find a consultation or windfall clause useful for political reasons.

Mr. Demuth - We might see what the clause looked like after it had been drafted by the Legal Department.

Mr. Clark - If the clause said nothing, it would be all right.

Mr. Schmidt - He felt it hard to say the Bank could go back and renegotiate the financing on an accelerated basis.

Mr. Rosen - What would be wrong with having a talking point?

Mr. Cope - How much meaningless language would we want in the agreement?

Mr. Demuth - In the Haiti case, if we made repayment in local currency, he felt that the financing should be on conventional terms, i.e. not interest-free or below the DLF rate.

This was another argument for sticking to one pattern.

Mr. Knapp - What about the term of lending from 10 to 50 years?

Messrs. Cope, Schmidt, Demuth - That would be all right.

Mr. Schmidt - If loans were repaid over 50 years, the borrower should be able to meet the service charges in foreign exchange.

Mr. Knapp - The U. S. had got to have a face-saving position on local currency loans.

Mr. Demuth - If we could get away with it by not making one of these in the first years it would be all right.

Mr. Rosen - Although certain questions might not matter a lot now to the extent we were setting up procedures, we had to consider lending on a larger scale.

Mr. Demuth - If we went on the basis suggested, it might result in DLF also changing.

Mr. Schmidt - We were talking about foreign exchange lending.

If we were lending local currency or PL-480 money, we could lend it on a local currency basis.

He felt that we had better stand on a foreign exchange basis for foreign exchange lending and that we should steer away from local currency.

Mr. Knapp - The memorandum was only the first bite. He suggested that we should not expand on loans repayable in local currency but hold the door open.

Mr. Demuth - We might say that in the case of loans in local currency, the foregoing terms would not apply.

Mr. Cope - He agreed.

Mr. Knapp - All right.

Who was against the provision for a windfall clause?

Mr. Demuth - He felt that it should be put in the loan agreement as IDA's lending would be softer than the Bank's.

Mr. Schmidt - He and Mr. Squire would prefer the consultation clause left out.

You could always renegotiate without putting anything in the agreement.

Mr. Cavanaugh - Was there any harm in including it?

Mr. Knapp - Yes.

Mr. Schmidt - It bothered him to put this in the loan agreement.

Mr. Knapp - He suggested that para. 15 should be left as it was.

Mr. Squire - He queried the sentence about the government in para. 16.

It was his suggestion that the terms of relending should correspond to normal Bank loans.

Mr. Knapp - If the loan was in local currency with a dollar clause, a 6% rate might be appropriate. But if the case were otherwise, perhaps we should get the going rate.

Mr. Squire - We did not take that into account in our projects.

Mr. Demuth - We should make the loan on terms which IDA considers appropriate in the light of circumstances prevailing in the borrowing country.

Mr. Knapp - Should we place the exchange risk on the project.

Mr. Cavanaugh - No. The government was responsible for maintaining the value of the currency. It was rare that the risk should be passed to the individual borrower. He should get the money on the same terms as he would from a local lender.

Mr. Squire - Power sources often got 4% government money.

Mr. Rosen - The government might have put the money in on an equity basis.

Mr. Squire - He felt Mr. Demuth's proposal to be a good one.

Mr. Cavanaugh - We would have to be careful if we lent to one steel mill, that a competitor would not have to pay much more.

Mr. Rosen - We would have to look at each case.

Mr. Knapp - 95% of the cases would be covered by the same terms as a Bank loan.

Mr. Ripman - It would be all right if it was an earning project.

Mr. Knapp - He was assuring that the exchange risk would be on the borrower.

Mr. Rosen - He was against the government passing on the exchange risk. IDA would then get in the position of policing the exchange risk of two other parties.

Mr. Schmidt - In practice you would have cases where income would rise if the currency fell. In the case of housing projects, it would be different.

Mr. Knapp - He would like to throw this question back to the Committee and also the question of any control over counterpart funds.

Mr. Demuth - Should we leave this open?

Mr. Squire - You could not dissociate IDA lending from that of the Bank.

Mr. Rosen - The beneficiary should not get a different deal.

Mr. Squire - He felt we should have general principles.

Mr. Demuth - But very general language.

Mr. Cope - For the "borrower" in the fourth line in para. 17, we should say "the enterprise carrying out the project".

Lending Principles

Mr. Knapp - He agreed with the comment in para. 20. He would not want IDA to be the last resort on a project basis.

Mr. Demuth - IDA would not have to ask whether they had tried to get the financing somewhere else.

Mr. Cope - The relation with the governments was unresolved and it was hard to decide this question in isolation. He would not disagree with the statement.

Type and Size of Project

Mr. Knapp - He did not disagree with the philosophy in the paper but he felt that training schemes, land settlement, and agriculture were better than water supply, sanitation, and housing.

All the latter could be linked to big urban aggregations.

He would prefer to do things in the rural areas.

Mr. Demuth - It seemed appropriate for IDA to help to clean up health menaces.

Mr. Knapp - Improvements in the water supply just removed one of the limits to crowding in the cities.

Mr. Cope - He thought IDA might help where this was associated with an industrial enterprise or a new farming colony.

Mr. Knapp - With water supply projects one would get into local politics. He felt they should be considered as low priority and that we should make a point on agricultural development in this paragraph.

What would IDA do in India? The Bank had not got far into food supply, agricultural development and village projects there. Why shouldn't IDA assist in these in India?

Mr. Rosen - If you stipulated away the local currency requirement, these would be just as messy for IDA.

Mr. Knapp - IDA had that missionary function.

Mr. Rosen - It would not be fair or possible for IDA to finance where the Bank had not been prepared to go for doctrinal reasons.

Could IDA do something in Viet-Nam because they had no credit and not do it in Malaya?

Mr. Demuth - How could we expect the same people to be crusading and adventurous in the case of IDA and not so in the case of the Bank?

Mr. Knapp - He felt that the creation of IDA would press the Bank plus IDA into undertaking more things.

He would like to strike the note that IDA should be more active in agriculture.

IDA could be swamped by proposals for big urban services.

Mr. Demuth - IDA would have to decide where they ranked.

Mr. Rosen - In terms of impact, in some countries water supply projects were needed more than another irrigation scheme to support the development effort.

He felt the Bank had made a mistake in not undertaking water supply projects in the past. They were just as important as those for the supply of electrical power.

The fact that there was a great amount you could put in all over the world, was not an argument.

Mr. Knapp - The water supply project probably made the best case.

This was in the Executive Directors' report and he was not proposing to veto it but he felt we should add more about agriculture, land settlement, etc.

In every case we had found that foreign exchange was required for agriculture.

We should add technical and training services. He agreed that we should still have a tone here of making a deliberate effort to broaden categories.

What about the last sentence at the end of para. 24?

Mr. Demuth - If IDA did nothing but Bank projects there would be a revival of support for the establishment of SUNFED.

Mr. Knapp - Wouldn't this be introduced in any case?

There was pressure on DLF by the U. S. Congress to do its financing in more conventional ways rather than to be more liberal.

If IDA branched out it might lose credit with the U. S. Congress but it was not worth debating this point any further. 11

Preparation of Projects for Early Financing

Mr. Knapp - He would like to reiterate that we would want IDA to have a record to show in the first year. He would have thought the prospects to be good to bring forward projects in quite a few countries in the next fiscal year.

In the paper Latin America had been dismissed rather quickly. He would have thought that there would be projects in other Latin American countries, e.g., Chile, Honduras, and Paraguay.

Mr. Schmidt - Yes.

Mr. Knapp - What had we done about consulting the French Executive Director?

Mr. Cope - He had wanted to talk to him and he would have the opportunity for discussions in Paris after the preliminary talk with Mr. Larre.

Mr. Knapp - Yes.

Mr. Demuth - He felt we should keep the circulation of the memorandum to the minimum at present. The Table and dollar limits were quite sensitive points. To what extent should we inform the staff?

There was the immediate problem of Bank missions going out and instructing them to watch for IDA projects in eligible countries and informing them of the probable terms and thinking of the Bank on the subject. It might appear early to do this but it was not early if loans were to be made by IDA next year.

Mr. Knapp - He had talked to Mr. Black and Mr. Iliff on the subject. He did not know if they had read the memorandum.

Mr. Black and Mr. Iliff would be here next week and Mr. Knapp would see them over the week end. Mr. Demuth would talk to Mr. Black to see if Mr. Black disagreed with anything in the memorandum.

We should get clear the general principles and much could be distributed to the staff. The figures might be taken out for this purpose and go to the Department Head in each case to instruct his staff.

We would have to get more concrete on the big and small countries and have a purge of the quantitative figures and have the paper to Departments accompanied by a paper on magnitudes for the Department Head.

Mr. Demuth - He questioned circulating a paper containing policy if none had gone to the Executive Directors.

We might give a form of guide to Department Heads to use with missions when they went out.

Mr. Knapp - The question of the terms to be used on loans was a difficult one. There was a lot in the memorandum, however, that could be sent in the form of a memorandum to the staff.

Mr. Cone - A lot in the memorandum should not be discussed with the Executive Directors and missions should not get information on any limits until they had been discussed with the Executive Directors.

Mr. Demuth - They could be told the way the thinking was going.

Mr. Lejeune - We either would not be able to start or had to come clean.

Mr. Cope - We should have a short paper telling them how far they could go.

Mr. Stevenson - He would rather the staff were told as much as possible and a muzzle put on the mission chief. He would hesitate to leave out ideas.

Mr. Coße - We could have a safe paper and supplement it by an oral report on the thinking in the memorandum.

Mr. Knapp - We should reserve for the oral report the scale of lending, country allocations, and the actual terms of loans.

Mr. Demuth - He was not so sure about the last item.

Mr. Knapp - This was a sensitive thing in the U. S. If Mr. Black approved, we should talk to Mr. Anderson and Mr. Willis about this.

Mr. Demuth - Should we have some informal group meetings with the Executive Directors to tell them?

Mr. Knapp - We might talk to individuals.

Mr. Demuth should think further about how we should handle the matter with the Executive Directors. A memorandum should be prepared for the staff, leaving out the very sensitive points and warning them that the ideas were subject to formulation and had to be brought to the Executive Directors for their approval. What was told to them orally should not be communicated to third parties.

There should be some revision of the memorandum on the basis of the SLC discussion and this should be ready for Mr. Black next week.

The meeting adjourned at 12:45 p.m.

HGA Woolley/mrd
September 2, 1960

copy Table?

SLC/M/60-30

STAFF LOAN COMMITTEE

Rough Notes of Staff Loan Committee Meeting held on
Friday, October 21, 1960 at 3:00 p.m. in Room 1006

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JORDAN

Mr. Knapp - IDA would not start operating until November 8 and what was said here would be highly tentative. When would the mission leave?

Mr. Rucinski - Early in November.

Mr. Knapp - It was not inappropriate to have this discussion in anticipation of what might happen. Who would be the members of the mission?

Mr. Rucinski - Mr. Goodman, Mr. Brakel, two financial experts and a consultant on water, Mr. Kinsel from Metcalf Eddy, and they might need an agricultural member.

Mr. Knapp - How far had WHO been brought into the picture? Had we consulted WHO about the consultant? Had they done work in this field?

Mr. Armstrong - Metcalf & Eddy were one of the leading firms of consultants in this field. He had contacted the Pan American Sanitation Bureau which was part of WHO and had also checked with other sources.

Mr. Knapp - Was there any WHO background in these projects?

Mr. Armstrong - He was worried whether we had sufficient background data. The Government had Brown International working for them and other agencies had been working in this field.

Mr. Rosen - Who was Brown International paid by?

Mr. Armstrong - He guessed by some aid money.

Mr. Demuth - It would be useful if Mr. Goddman stopped in Geneva on his way to Jordan to tell WHO what the Bank was thinking about.

Mr. Knapp - The whole question of IDA and the UN agencies was becoming a hot subject. We might set up an infomal relationship which might be meaningful and get off on the right foot about this.

Mr. Rist - Had we hired the consultants?

Mr. Armstrong - Yes.

Mr. Rucinski - We should bear in mind that we were not here setting general policies for the future for IDA but for the Jordan project only.

Mr. Knapp - The questions in the Area Memorandum all had to do with the financ-
ing of waterworks. We were not questioning appropriations for waterworks by IDA.

What had led to the decision that this was the best thing to do in Jordan?

Mr. Rucinski - There were questions about a potash mission and there remained these four projects and a project of the Arab Development Society. The latter project had not much support from the Government.

Mr. Knapp - Were these projects of high priority in Jordanian development?

Mr. Rucinski - It was a problem to get projects ready in an advance stage. Water was of high priority there and would be an added consideration for the development of tourism which could contribute substantially to improve the present position and could possibly put them on a self-sustaining basis.

They had other things such as phosphates but we had no indication that the Government would present these as they were fairly well taken care of.

Other high priority items were highways and ports.

Mr. Goodman - The reason Jordan had put these waterworks projects at the top of the list were (i) the present frequent total stoppages; (ii) the present frequent contamination.

Some of the towns had grown from villages to become teeming cities. The situation was extremely urgent and over-all expansion was essential.

The water was also needed for industry and its development, and to attract tourists.

Mr. Brakel - The mission report showed that the water situation was even less adequate to their needs than housing. They put a reliance at present on motor tankers. Their sewerage systems tended to pollute the water and there were numerous leaks.

Storm water drains were urgently needed.

Jerusalem drew water from distant springs and per capita supplies were extremely low.

Mr. Knapp - What had been done? He was not challenging making these projects but wanted a little background.

Mr. Brakel - Recommendations of expenditures were in the report.

Mr. Knapp - The amounts were small related to the report.

Mr. Rist - In urban centers, was it sense to improve the water supply without sewers?

Mr. Armstrong - It was the normal practice to fix up the water supply first. The program included water treatment to deal with any contaminating influence.

Mr. Schmidt - Wouldn't the delay of the sewerage system cause them to dig up the streets twice?

Mr. Knapp - They had practically no streets. It might be a question whether the amount suggested was appropriate if it was to be kept in proper relation with other things. What had been their plans before IDA was planned?

Mr. Rucinski - They hoped to be able to get aid for these projects.

Mr. Goodman - They had obtained some money from ICA, i.e., \$500,000 for Amman.

They had had studies made by UNESCO but no one had come forward with schemes to build the works.

Mr. Rosen - What was the size of their budget and investment program and how would these projects fit within it?

Mr. Brakel - The budget of \$70 million included military aid and other sources of aid.

They received \$45 million in domestic revenue and \$55 million in foreign grants (from the U.S.), particularly for the import of military equipment. They received £ 2.5 million from the U.K. over two years.

Mr. Rosen - What were their investment expenditures?

Mr. Brakel - They were only about £3 million or thereabouts.

Mr. Rucinski - They were much larger now.

Mr. Knapp - The U.S. funds were mainly for current purposes.

Mr. Brakel - \$5 million was for investment expenditures.

Mr. Goodman - Some large projects had received other aid. The port of Aqaba and the road to it had been financed by the U.K.

Mr. Knapp - There was about \$15 to \$20 million in public investment a year and of this a big proportion was from the U.S.

Mr. Armstrong - Our investment would be spread over three or two years and one or more projects might drop out because they might not be ready. Nablus so far had no proven source of water.

Mr. Demuth - And there might be a different order of priority.

Mr. Armstrong - The probable order was Amman first and then Jerusalem.

Mr. Goodman - The UN Special Fund had been asked to provide a study of the transport of water from Azraq to Amman. The Bank might only finance the first stage of this project.

All the key cities in the country except Aqaba had been included. Bethlehem was included with Jerusalem.

Para. 4 (a)

Mr. Knapp - Should we make a difference in the case of Jordan to what we would do in other countries? In the case of IDA, we wanted to have general principles but we might strain them a little in a particular case.]

Mr. Rosen - He did not see that it mattered whether a country was getting budget aid, etc. He did not see the logic of a different percentage of lending here.

Mr. Demuth - Jordan was not financing any capital investment.

Mr. Knapp - The key was not how the Government managed its investments. The more important municipalities should build these things and they must have the

revenues. He felt that the municipalities should put up an important amount.

Mr. Rucinski - Where would they get it from, in comparison with Iran where there were no refugees?

Mr. Clark - In Iran, the municipalities had no money and money had been lent to them from the Plan Organization or other Government funds. For two years they had no money to match this and 50% had been provided to them on a grant basis.

Mr. Knapp - He did not think they would lend the full amount. The 50-50 deal had broken down. There should be a certain degree of local enterprise and local mobilization of capital for this type of project.

Mr. Goodman - He understood that the municipal loan fund supplied by the U.S. was almost depleted. Another source would be the commercial banks.

Mr. Knapp - The Bank's policy would be not to finance the whole. It would be unhealthy to give the projects to the municipalities as completely free gifts.

Why should there not be local contributions?

Mr. Armstrong - One problem would be how to set up a local organization.

Mr. Rosen - It would not matter if the municipalities sold municipal bonds. It might be possible to find people in Jerusalem to buy the bonds.

Mr. Broches - He agreed that IDA should not finance the projects 100%.

Mr. Knapp - It would be important to mobilize local interest and capital.

Mr. Broches - Assuming something must come from the municipalities, would Mr. Knapp object to this being raised by water bonds?

Mr. Knapp - No, but this would not be the most desirable way.

Mr. Goodman - If the municipalities were operating with a deficit, should the mission come away?

Mr. Knapp - We might have to retreat to permit them to sell some water bonds, but there would be some advantage even in that to hold the whole investment to some reasonable dimension. In waterworks you could have all sorts of degrees of luxury.

Mr. Armstrong - There was a minimum acceptable quality. He thought we would have to supply lines in the street at least, i.e., a basic distribution system.

There was the question of how big to build the lines for future development.

Mr. Iverson - Amman had some capital coming out of taxes and revenues had increased considerably. Real estate had gone up hundreds of times in value. Some of this could possibly be diverted for these purposes.

Mr. Knapp - They were getting subsidies for refugee relief. Personally he felt it desirable to have local contributions through that, if necessary.

Mr. Diamond - Mr. Goodman had said that his first point would be to investigate if there were possibilities of raising capital.

Mr. Cope - We did not know the facts now.

Mr. Demuth - If they could not put up any or only 10%, would we be prepared to finance the projects, or would we draw the line at financing 50% or 70%?

Mr. Knapp - At the level of the Federal Government, they could always put up some capital but to divert some of their aid funds for this would be somewhat of an empty gesture.

Mr. Armstrong - There was a question of whether there should be a municipal or a central authority. Puerto Rico had a central authority. We would not know about this until the mission returned. He did not believe they had any real organization now. The only organization they had was operating in Jerusalem.

Mr. Rist - There was general consent that this should be under the Jordanian or municipal flag. He was surprised that anyone saw any difference between these. It was important that it should not be fully a foreign project.

Mr. Knapp - He felt that psychologically and materially it would be a great advantage if they mobilized locally the service of their important municipal services.

Mr. Demuth - He felt that we should get it wherever we could.

Mr. Rist - We should consider whether the Government held this together.

Mr. Schmidt - It was more desirable to do financing where the people were willing to make an effort for themselves. There was a tendency to look to the Central Government to do everything in Latin America and that had held them back.]

Mr. Cope - He felt that this should be limited to Jordan.

Mr. Knapp - Everybody would seize on what we did.

See precedent.

Mr. Demuth - Poverty or wealth did not always relate to good management in municipal affairs.

Mr. Schmidt - If rates could pay off over a long period and provide for some expansion, we should be willing to finance a higher percentage.

Mr. Armstrong - We had been going on the basis that the Jordanian projects would have to be self-liquidating.]

Mr. Knapp - As regards debt/equity ratios, he was not sure they would have any equity beyond Federal grants.

Mr. Armstrong - The mission would look to see if they could stand reasonable rates. The reasonable time to pay off would be from 20 to 25 years.

Mr. Demuth - He questioned whether these projects had to be self-liquidating. It was not a necessary criterion that waterworks should be on what we would consider normally to be a sound financial basis.]

Mr. Knapp - He would hate to start on the projects on the basis that they were not going to be sound.

Mr. Demuth - This case was worrisome because it was the first IDA one and if we financed up to 90% of the total cost, we would have established a difficult precedent in IDA's early days.

Mr. Knapp - Wouldn't we have the Indian and Pakistani IDA projects right after the first of the year? He would bet that the Jordanian projects would take six months or more.

He felt that IDA might be prepared to finance 70% of the total cost with the other 30% coming from Jordanian sources and, as much as possible, a substantial part from the municipal level.

Mr. Rucinski - If the municipalities were supported by the Federal Government and the Federal Government, in turn, supported them from external aid, this would amount to window-dressing.

Mr. Goodman - What would the mission say if they could put up foreign exchange but not local currency?

Mr. Knapp - He did not care whether the 30% was put up in foreign exchange or local currency.

He did not care about (b) but between IDA and DLF or someone else, we should not finance the whole of the cost. He felt that some money could be found at the municipal level and for psychological reasons the project should not be financed 100% from foreign aid.

Mr. Cope - What argument was there for the figure of 70%?

Mr. Knapp - Were there any other proposals about this figure?

Mr. Cope - It might be on a 50-50 basis. We had used that proportion frequently before.

Mr. Armstrong - We had got to a 60% to 65% figure in the Bank's financing of public utilities projects.

Mr. Demuth - He felt if the ratio was 70 : 30, it might be possible to get some contribution from the Jordanians and we should try to get them to put up as much as possible.

Mr. Rucinski - If the municipalities could raise 20%, would we still have 10% of window-dressing?

Mr. Knapp - Yes. We should get anything in substance we could and seek to obtain the maximum of 30% in municipalities' contributions.

Mr. Rosen - It would then be a question of how much you scrutinized the Jordanian budget.

There would be other cases similar to this in Korea, Viet-Nam, Laos, Cambodia, etc., and you could not consider the Jordanian projects as a case by themselves.

If a very large percentage of the projects was to be financed by IDA, it would be nicer if these were not the first ones to be approved.

Mr. Knapp - He did not feel they would be the first ones. In any case, it would be clear that Jordan was quite a special case and not a precedent for the full range of countries.

Mr. Knapp - Jordan was one of the most down-and-out countries.

Mr. Demuth - If it were easier and better for Jordan to raise the money for the projects at the national level rather than at the municipal level, he felt we should accept that.

Mr. Knapp - It was his strong impression that the only likely place where Jordan might raise the money was at the municipal level.

Mr. Rucinski - It was important that additional money should be raised and it was only possible at the municipal level. We should press for this as far as possible but he thought we should be satisfied if they put up as little as 25% but that if they only proposed to put up 5% we should go back to them again.

Mr. Knapp - The mission that was going out should bring back a proposition. (b) was already covered. He did not care about (c).

Mr. Rosen - If the foreign currency was provided by someone else and IDA made a tied loan or grant, there would be no justification to finance local currency.

Mr. Knapp - If competitive bidding would get them a better price from Germany or the U.S. for instance, we should give it to them.

Mr. Rosen - Then they would have us pay the foreign exchange cost.

Mr. Cope - Mr. Rosen would then stop them from getting a grant.

Mr. Rist - He did not see why we should not leave the loan for them to account for as they wished.

Mr. Knapp - He felt that the case Mr. Rosen suggested would not arise. If this were to be part of the 70% to be financed by IDA it would not be attractive to the Jordanians. If we meant it to apply to the 30% to be supplied by us or at the municipal level, the case would not arise. Otherwise normal competitive bidding should be exercised.

Mr. Demuth - How much was likely to be in local currency..

Mr. Armstrong - We had no idea. It might be 60% in foreign currency and 40% in local currency.

Para (d)

Mr. Knapp - He assumed that we would go thoroughly into the terms of repayment. IDA should be regarded as having a self-liquidating policy for its financing and would want to agree to the terms of relending and there should be approximately the same as the Bank would do directly if it were making the loan.

There was the question of the exchange risk but he was not trying to ask this question now as the IDA Committee had not yet reported on it.

Mr. Cope - The mission should get the facts.

Mr. Knapp - The answer to (d) was yes. We had said that generally speaking relending should be on conventional terms.

Mr. Rucinski - It might be out of one pocket of the Government into another.

Mr. Knapp - We would never get suitable water rates, if they were to be based on hypothetical reasoning.

Mr. Armstrong - We had not considered this aspect yet.

Mr. Demuth - Where would this water come from?

Mr. Armstrong - From a salt spring from the Dead Sea.

Para. (f)

Mr. Knapp - What would be the size of the operation? We were now talking about IDA financing amounting to about \$7 million and this still seemed high.

Mr. Goodman - It would depend on the period you were considering.

Mr. Knapp - It was premature to agree to \$5 or \$7 million and it was not necessary at the moment to accept that IDA would participate in all the four projects simultaneously if they came at the same time.

We all agreed that in view of the conditions in Jordan, the projects should be executed with the maximum of conservatism and economy and that the consultants should bear this in mind.

Mr. Demuth - We had gone far enough about this type of project with the Executive Directors so that it would not be tossed out by them.

The U.S. felt that 50-year loans might be a little too long.

He felt we could proceed with the projects unless the Executive Directors asked for a discussion of IDA's policies at the first meeting.

Mr. Rucinski - The Jordanians would want to know the approximate rates and terms.

Should we tell the Executive Directors before we negotiated with Jordan?

Mr. Demuth - The Directors already knew what was necessary.

The meeting adjourned at 4:45 p.m.

STAFF LOAN COMMITTEE

SLC/M/60-35

Rough Notes of Staff Loan Committee Meeting held on
Wednesday, November 23, 1960 at 3:15 p.m. in Room 1006

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CHILE

Mr. Knapp - The principal question posed in this paper is whether the Bank or IDA should finance the projects now under consideration. We would need an economic report to answer this question.

Mr. Chaufourrier - The last economic report was made in December 1959. No economic report was made by the mission because it was in Chile only 10 days and the Government was in the midst of a study of plans for economic development and reconstruction of earthquake damage. (An economic report would be prepared early next year as soon as information on the Government's plans would permit).

Mr. Knapp - We would need an economic report in order to go to the Executive Directors, if the project were to be financed by the Bank or IDA.

Regional Survey

Mr. Schmidt - We also wanted SLC guidance on the proposed technical mission and the proposed broad survey mission. A letter to Mr. Black has just been received from Mr. Figueroa stating that a mission would arrive in Washington next week. The mission may ask Bank assistance in putting together an investment program. I think that the Bank should help them, particularly in the agricultural and transport fields. Chile has had an agricultural program but it has not been effective. The Government is starting a new program and wants our help in working out projects and financing.

Mr. Demuth - The previous mission to Chile did not look at the over-all picture of the economy and therefore was not able to establish the priority for agriculture in the whole economy nor to determine the amounts available for agriculture. Should we not have an over-all study of the southern area before making a study of agriculture and transport in that area?

Mr. Schmidt - A good deal of work has already been done. Therefore, we think that heavy investments would be required in agriculture and transportation since the south is the agricultural region of Chile.

Mr. Demuth - The amounts available for investment in these two fields would be dependent on the rest of the economy.

Mr. Knapp - The development in the southern area must be in proper proportion to that of the total country. I assume that the Chileans have done this but we should check that their plans for the southern area are in proper perspective.

Mr. Schmidt - The problem in Chile is that programs are started and not completed. I agree that plans for the south must be in perspective, but I also think it's important that something tangible result from the study; something which can be used for the working up of projects.

Mr. Schmidt - DLF has told us since that it has turned them down, possibly due to a lack of sufficient funds.

Mr. Knapp - We should check that DLF did not turn the projects down on the merits of the projects.

Para. 30 of the report does not make much of a case for financing of local currency. I think that the \$20 million for the highway is enough for IDA financing in Chile for a while.

Mr. Schmidt - I suggest we leave that until after our talks with the Chilean mission are completed and we know what they have in mind.

Mr. Demuth - In any event it would be a mistake for IDA to cover more of 50% of the cost of any project.

MUNICIPAL WATER SUPPLY PROJECT

Mr. Knapp - I did not find much about the economic contribution of this type of project except the statement that it's difficult to determine the contribution.

Mr. Aldewereld - The experts estimate that in the U.S. about 40% of the water received goes for industrial use but accurate evaluation is difficult.

Mr. Rist - A paper prepared by the Economic Department on the economic aspects of this problem quotes authorities in the U.S. to the same effect and points out that many industries generally solve their own water problems partly because municipal facilities are not available but more often because industries require less pure water than that produced for drinking purposes.

Mr. Knapp - The report states in para. 2 (d) (i) the Bank should lend for municipal water supply projects provided their economic contribution can be clearly substantiated and in para. 2 (d) (iv) states that the Bank should only lend for municipal water supply projects provided no other suitable projects are available. If we can demonstrate that a project has sufficient economic priority, why do we need para. 2 (d) (iv)?

Mr. Demuth - There is always trouble with the words 'clearly substantiated.' The supply of good water leads to better, more efficient labor but one cannot state definitely that there will be increased production as a result. One cannot clearly substantiate the economic benefits to the satisfaction of the fussy analyst.

Mr. Knapp - The problem is complicated further by the fact that the supply of water is linked up with other things which also have economic benefits.

Mr. Iverson - There are some cases in Latin America for which economic benefits have been determined. True, most cases have been done in conjunction with the improvement of health measures, but I think we can find some which will give adequate measurement of the economic benefits of municipal water supply.

Mr. Rist - I am sure that there are cases where water supply has been instituted without other services. In Europe, in my childhood, everybody had typhoid fever before the installation of proper water facilities.

Mr. Demuth - I am worried lest the recommendations as now worded in the report could be interpreted to exclude every investment in this field.

Mr. Schmidt - We have seen that in many parts of the world the population is shifting from the country to the metropolitan areas to the disadvantage of economic development. The question arises whether the provision of proper water supply in country areas would help this situation.

Mr. Armstrong - Water supply projects are of a type which are satisfactory for execution by municipalities themselves if given the proper advice. In Nicaragua water supply projects were executed by the villages with little cash outlay.

Mr. Knapp - In Iran they have a nationwide plan to provide water to villages under which the Plan Organization agreed to match the contribution of the villages and to provide plans and engineering. After a short time the villages did not have enough money to make their 50% contribution and the Plan Organization had to lend the villages money to cover their share of the costs.

Mr. Cope - If the projects can be done locally, that is fine but it's irrelevant to the present issue since the Bank would not be asked to finance those particular projects.

Mr. Stevenson - The question is whether water supply projects have a productive or a consumptive purpose.

Mr. Knapp - That need proving in each case. It is true that water is the first thing the people want but we have to distinguish between (i) the provision of amenities which raise the standard of living and (ii) the execution of projects which will benefit the economy and result later in an increased standard of living. Our emphasis should be on the latter; or, rather, we should not place too much emphasis on the direct raising of the standard of living over the indirect.

Mr. Rosen - I have to disagree with the paper prepared by Technical Operations. The Bank's Articles of Agreement provide that the purposes of the Bank are to promote international investment for the "development of a productive resource of members thereby assisting in raising productivity, the standard of living and conditions of labor...." Water supply projects fulfill all of these requirements. The real question is whether a water supply project furnishes a net economic return on the capital output.

Mr. Cavanaugh - What about food? Proper food is more important to workers than good water.

Mr. Rosen - Many industries in developed and underdeveloped countries, including the IBRD, subsidize the supply of food. Measuring the additional economic return on feeder roads, for example, is a difficult problem; however, we do it. We must make an economic judgement as to investment in water supply projects just as we do in any other case.

Mr. Knapp - Everybody agrees with that.

Mr. Demuth - What about para. 4? That puts the matter in a different light than has been suggested by many here today.

Mr. Knapp - I think para. 4 goes too far. We need more data on the economic benefits of water supply projects to reach a decision. However, off-hand, I do not think that the installation of pipe to supply water to the suburbs of a big Latin American city has high priority.

Mr. Rosen - Singapore is in need of water which must come from the mainland and the water will go to both productive and unproductive purposes. One would have to examine each situation individually to determine the degree of economic priority for any given water supply project; but the priority may be quite high.

Mr. Aldewereld - I don't disagree with Mr. Rosen. The Rio de Janeiro suburban transport project is an example of Bank financing where the Bank had made a judgement as to the economic benefits of transport amenities. The question is whether we would agree to finance water supply projects knowing the uses of water as compared with those of power. I am not arguing against the statement that water used for human consumption may result in increased production.

Mr. Knapp - A priori, I would expect the installation of a modern water system in a small town to have higher priority than one in the suburb of a big city.

Mr. Cope - Again, one would have to look at the circumstances at each case.

Mr. Knapp - I can't prove it but I think the investment in a small town would be more productive.

Mr. Rosen - The same thing would be true for power. If a city needs water for its people the supply of that water is productive.

Mr. Cavanaugh - Many people in the U.S. do without municipal water supply but very few go without electricity.

Mr. Clark - One would have to take into account the work of the Rural Electrification Authority in drawing any conclusions on the basis of those facts in the U.S.A.

Mr. Rist - When Mr. Prasad went on home leave to Poona, he and all his family were sick. Their illness was not because they were unaccustomed to the water. Most everybody in the city, and in rural India, is sick at least one month out of every year from bad water.

Mr. Schmidt - In Latin America only the big cities have a municipal water supply system. Generally projects for water supply improvement are inadequate for Bank financing due to poor management and the presence of uneconomical services to suburbs. In the smaller cities, it is difficult for us to proceed on an individual basis because of the great number of towns and villages involved. The question arises whether we can qualify the small cities and rural areas by some general test or tackle the whole problem through a national organization for each country. Perhaps a distinction should be made between poor and rich countries.

Mr. Rosen - If a project is not productive, it should not be done in the poor countries because they can less afford to lose capital.

Mr. Knapp - In the countries in which IDA will operate there may be more possibility for financing water supply projects.

Mr. Rist - It is striking that men involved in the water supply problem do not think of the problem of economic justification but only the problem of administration. The latter is the big problem.

Mr. Armstrong - That is one reason for financing water projects. The Bank could make a real contribution in advising on organization problems.

Mr. Diamond - Some of us are bothered because we cannot measure the economic return from water supply projects with any accuracy. Perhaps other organizations, e.g., the U.S. Public Health Administration, have experience in this field and have worked out methods of measuring the economic benefits. With a little experience we probably could do as good a job in water supply projects as we do on feeder roads. With more experience we would probably gain more confidence in our ability. There must be ways as other people have made the measurements in spite of difficulties, including that of differentiating between the benefits of proper water supply and health measures.

Mr. Knapp - There was no logical reason to make a distinction between the Bank and IDA in accepting water supply projects for financing since the allocation of projects between the two organizations is to be based on creditworthiness. There is a background of pressure for IDA investments in social projects. This pressure may have been due to the thought that broader social projects are more productive economically than specific projects, but the pressure was also due to two other reasons: (i) the social projects are politically attractive as they are related to the wants of a greater number of people and (ii) certain prospective members of IDA thought the inclusion of social projects would mean the receipt of more money for them.

We should recognize the latter two pressures as fallacious. As the first applies equally well to the Bank, there is really no difference between the attitude of the two organizations toward these projects.

Mr. Demuth - Some countries think that education should be included in projects to be financed by IDA. This raises a difference.

Mr. Knapp - That raises another question entirely. That of the market for the Bank's obligation.

Mr. Clark - Paras. 15 and 16 regarding the difficulties of preparing and executing water supply projects raises a question as to why we have decided to go ahead in IDA.

Mr. Knapp - The conclusions of the paper are not satisfactory, I would suggest something along the lines of the following: (i) assuming water supply projects are financially viable and meet the Bank's test as to economic priority and justification, there should be no prejudice against financing them either by the Bank or IDA; (ii) the Economic Staff of the Bank should initiate a study of the problem of measuring the economic benefits of water supply projects calling upon other organizations and agencies who have experience in this field.

The meeting adjourned at 5:35 p.m.

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Rough Notes of Staff Loan Committee Meeting held on
Tuesday, January 31, 1961 at 3:00 p.m. in Room 1006

REVENUE-PRODUCING PROJECTS

Mr. Knapp - This meeting comes about from the fact that this subject was on the agenda of the Lost Weekend but was not discussed for lack of time. The meeting has been postponed once in order to make some revisions in the paper. Just putting the thoughts down on paper has probably been very helpful as a useful exchange of ideas. I understand there has been a good deal of discussion on the paper already. It certainly is an interesting paper.

Mr. Aldewereld - I had two reasons for wanting to undertake the study of this subject. The first stems from our difficulties in preparing the technical report on the Japanese railways project. The second is that we have been applying principles in the past which perhaps may not have been consistent. I hoped the paper would give us a chance to see whether the principles we have been applying have been correct.

Mr. Knapp - I would like to ask Mr. de Wilde about the minutes of the SEC meeting on this paper and to give us an oral report of that meeting.

Mr. de Wilde - Because this paper was changed considerably after the meeting of the SEC on an earlier draft, the minutes of the SEC meeting were not particularly relevant. I will attempt to give an oral report but I may go beyond the SEC in some respects because of my personal predilection for raising revenues.

This personal position is based on three considerations: (1) there is rather a prima facie case that if revenues are low, the cost/benefit ratio may be low; (2) if investment resources are low, it is desirable to examine all possibilities for increasing production of investment resources by higher revenues for self-supporting projects; (3) if prices are low, there is some danger of encouraging investment for production of economically unnecessary consumption of services or goods.

The presumptive yardstick set out in the paper is satisfactory as a guide of operations, but we must examine each application of the yardstick for possible departures either up or down. There is, for instance, a case for charging what the traffic will bear where there are monopoly profits, if investment resources are low in comparison with investment possibilities.

There are, however, limits to the application of this policy in some cases because of competition and, in such cases, other means of raising revenues must be found rather than increasing rates.

Acceptance of lower revenues depends, I think, on whether a project should be subsidized, or stated in another way, whether the subsidy should be countenanced by the Bank. A subsidy may be desirable if the result would be to maximize over-all production. For example, subsidization of fertilizers or water supply might result in an over-all increase of agricultural production. Also it might be advisable to countenance subsidy to offset other subsidies, for example, to subsidize agriculture to offset subsidies given to develop industries in an under-developed country. Finally, subsidies granted to benefit the community as a whole rather than the users might be considered as acceptable; e.g., education and water supply subsidies.

There are, however, two difficulties in applying the yardstick proposed by the paper. The first is that of determining a cost of capital. This is not the cost in terms of borrowing but in terms of the scarcity of capital and its possible use in other areas of development. Much study by the Bank is still required in this field.

Secondly, where a project is the extension of an old project, there is the difficult problem of calculation of asset value on which to determine the rate of return.

This whole matter is one of codifying basic practices of the Bank. The general position of the paper is all right; but the real problem is one of departure from the yardstick set up by the paper and the extent of the departure.

Mr. Knapp - On the problem of measuring the cost of capital, do you think that 7% to 10% is in the right range??

Mr. de Wilde - I think the range should be broader than that, say 5% to 12%. The 5% figure may be considered low but it is a question of supply and demand for capital which may balance out at some point in the range. Capital is generally scarce in underdeveloped countries but opportunities are also rare with a consequent low cost of capital. On the other hand, a very high supply of capital combined with a high demand may result in a high cost, as in Japan. The rate may balance out at any point in the range.

Mr. Cope - The discussions alone on this subject justify the paper.

I agree with what Mr. de Wilde has said as to the difficulties of this problem. It seems to me the paper takes too narrow a point of view. I want to make three points: First, the real question is what is a reasonable rate of return. This question is not covered in the paper. I understand that TOD has been doing some research on this and it would be helpful to know what rate of return had been expected on all the projects we have financed at the time we made the loans.

Secondly, the paper is fairly strong on power projects but gets a little shaky on railway projects where technical changes have begun to cause financial difficulties. I agree with the general idea set out in the paper but the paper is not very useful for railway systems which are going downhill. It leaves out a whole range of projects on which we need guidance. Para. 37 speaks of "prospects of earnings and adequate return on investment on proper valuation of assets." This is not much help. Historical cost is no good and revaluation to present values of assets in a declining industry or project is not very useful because in truth the assets wouldn't even be built today if we were starting fresh. This whole question is one of very complicated economic analysis. I think the paper should pay more attention to economic principles rather than to descriptions of situations we have encountered. I suggest that the Economic Staff set down principles for the guidance of Bank operations.

Thirdly, because of the history of the paper with numerous revisions, it has several ambiguities which should be edited out.

Mr. Aldewereld - The paper was prepared on the cases seen and the difficulties encountered and not on the basis of general economic principles. I agree para. 37 is not very helpful. This point was discussed in the STC meeting. The question of the less dynamic industries is admittedly difficult. If we were not examining an old railroad but were asked to finance economic transportation, we might now recommend building a highway instead. But the mere existence of the railway leads to a conclusion to hold the railway, but the question is at what rate of return. What is the value of the old assets? We can capitalize the return we expect to get, but, this is not a very helpful answer.

Mr. de Wilde - In this connection, the paper suggests that in some cases it may be necessary to revalue assets. But often the situation is one of over-valuation and the question arises whether we should seek a return on the old investment. A devaluation may be necessary which would show a much higher rate of return.

Let's assume a situation of inflation and serious price distortion. The question may arise whether it is possible for rates to be put up for the purpose of increasing the return without reducing revenues. Under these circumstances, revaluation of assets may be only a rationalization for a rate increase and not a change to reflect the true value of the assets.

Mr. Knapp - My view is that if a project slips into financial difficulties, this fact alone compounds the unsatisfactory situation because the general efficiency of the project is damaged by a drop in standards. For example: payrolls become inflated; the capital equipment is allowed to run down. This is a good reason for catching the problem before it slips into real financial difficulties.

Mr. Cargill - We all agree to eliminate deficit cases but the correction of the financial difficulties to which you refer may require other means than rate increases.

Mr. Aldewereld - This is a complicated problem. In Australia they added diesels to their equipment to solve railroad difficulties.

Mr. Cargill - A really interesting case would be that where there was a deficit for a whole enterprise but a new addition is justified.

Mr. Knapp - That case is discussed in the paper.

Mr. Broches - There seem to be two problems: first, determining what rate is proper; and, second, on what basis this should be calculated. Could one calculate a renewals fund necessary to keep the project on an existing level?

Mr. Aldewereld - That is exactly what they are doing in all the ex-U.K. countries. Calculations give the present revaluation cost and that is used as a depreciation charge. The Japanese have revalued all assets on present values and so they automatically use replacement cost for their depreciation charge. Other people achieve the same thing by charging the current prices for depreciation. This is why the rate of return figures are not comparable for different projects.

Mr. de Wilde - The chance of insisting on adequate depreciation depends on the monopolistic status of the enterprise. Some projects just couldn't cover adequate depreciation charges with their revenues.

Mr. Aldewereld - That's right. But the question is, if they cannot, whether the railroad should be built at all.

Mr. Cope - If the railroads followed Mr. Broches' suggestion of charging at a renewal rate, they probably would not earn anything on their capital investment.

Mr. Knapp - I think that a project should meet a lowest standard of covering operating cost and depreciation. This would give protection against the internal financial rot I mentioned earlier. Above that, it becomes a fiscal question for the government or agency or company responsible for the project. We cannot generalize except to say that we should get the most we can.

However, we might accept lower standards if we could get agreement on a forward program to achieve the satisfactory level within a reasonable time. Uruguay would be a sample perhaps.

Mr. Aldewereld - The paper tried to cover that. I would go as far as to say that we might accept a railway losing money, assuming an efficient operation, if the cost of providing service by other means would be greater. For example, the construction of a railway extension might result in a loss on investment in the total old and new facilities but the cost of a highway would be much higher.

Mr. de Wilde - Investment in transport is a question of the/return on the marginal investment in roads or railroads.

Mr. Knapp - What about a section of the road going off to some isolated area? If they don't need transportation for this area, they shouldn't build either railroads or roads.

Mr. Schmidt - In Latin America the railroads run at an operating deficit and we must insist upon reforms before we can go ahead. Once we have achieved that point then I would agree with the principles in the paper.

I have a question, though. This paper does not say anything about a margin for future expansion. Although the loan covenant does. Are we now saying that rate should only provide an adequate return on investment.

Mr. Aldewereld - The answer is no. The paper says 'return to include enough to cover investment in growing industries.'

Mr. Knapp - We have dropped out the involuntary savings point since there is no experience of a rate high enough to impose their savings.

Mr. Schmidt - But we have had rates which permitted reinvestment.

Mr. Diamond - I do not know of any cases where the return was higher than the cost of capital, but in Costa Rica certainly the 7% figure was arrived at not from calculations of the capital cost but by calculating how much was needed in the way of rate increases to provide 40% of the estimated cost of future expansion.

Mr. Knapp - That is a good persuasive approach; a good argument to meet investment requirements for future needs. We are uncertain as to the exact cost of capital for each case. As a practical matter we worked out what was needed for reinvestment, knowing that the return figure would probably fall within the range of the cost of capital.

Mr. Cope - That is all right as a practical matter but what if there is no expansion program requiring reinvestment?

Mr. Aldewereld - Fortunately we are not faced with that problem as we are dealing with the industry in the usual case. However, Mr. Diamond is right. If the calculation of the amount needed to cover 40% of the cost of expansion had come to a 20% return on investment it would have been all wrong.

Mr. Stevenson - If the application is pragmatic, we certainly cannot say that the general policy is all right. Consequently, I suggest a change in para. 50.

Mr. Knapp - Your suggestion is appropriate.

Mr. de Wilde - One would have to prove that there is no better way to raise money if one objects to this policy. As a practical matter, it is all right. But, don't let's kid ourselves that it's anything else but a practical guide.

what became
of this principle later?
CH1

Mr. Lejeune - The rate clause in the Costa Rica Loan Agreement provides that rates are to accomplish three things: (1) cover costs, (2) provide a return on investment, and (3) provide funds for future investment. A side letter says the rate of return is to be 7%. Why?

Mr. Cope - The provision of the Loan Agreement should refer to the rate of return on investment and not to what should be done with the return received on the investment.

Mr. Lejeune - The covenant deals with cash generation and disposal. I think that it should not.

Mr. Aldewereld - I agree we will have to have another look at that provision.

Mr. de Wilde - This problem arises if we want a rate of return above the rate of the cost of capital for the project.

Mr. Aldewereld - The amount of ploughback was admittedly determined by various factors. 40% of the cost of future expansion would be good for one project while 25% would be good for another. Therefore, criticism based on that score is justified. However, the criteria as to the rate of return should be uniform.

Mr. Diamond - Often there isn't enough economic guidance on this point for TOD when preparing their technical reports.

Mr. Aldewereld - The reports should have some evaluation of the rate of return on investment for each project that we consider.

Mr. Nurick - How can it be done without any capital market?

Mr. Diamond - I don't think that that problem is any more difficult than determining the justification for providing 40% of the cost of future expansion out of present revenues.

Mr. Aldewereld - The 40% figure is based on technical and financial factors which can be evaluated.

Mr. Diamond - But there are other factors for determining the return on capital which could be considered.

Mr. Aldewereld - I agree we should take these other factors into account. If a project earns a reasonable rate of return we cannot insist upon a rate increase. There is no connection between rates charged to customers and the needs for financing future expansion.

Mr. Knapp - True, there is nothing to justify insistence on providing for future expansion but it is persuasive and practical advice.

Mr. Cope - I agree that it is advice and not something for insistence. In Austria, for instance, we would not have been successful if we had insisted.

Mr. Diamond - Para. 19 speaks of electrification taxes and mentions that such taxes going back into the industry from which they were derived would be all right. I don't see why it makes any difference whether the proceeds go back into the same industry or not provided they go into the over-all investment of the country.

Mr. de Wilde - I agree. There are two questions really: (1) whether the tax should be considered as part of the revenues of the enterprise, and (2) whether all of the proceeds of the return on the enterprise should be devoted to the extension of that enterprise.

Mr. Knapp - If the funds received by the Government go into additional investment such as power, all right. But are there any such cases?

Mr. de Wilde - Many cases in the Middle East.

Mr. Knapp - But the receipts of the governments in the Middle East are just taxes and not part of the return on the enterprise.

Mr. de Wilde - In the cases I am thinking of, the tax is part of the return on the investment in the project.

Mr. Cargill - Whether the proceeds are earmarked for reinvestment or not, the rate of return should certainly be calculated before deducting taxes.

Mr. Knapp - I was talking about additional taxes over and above the return on investment. A tax increase (including excise tax) is not properly included in the return on the project.

Mr. de Wilde - Assuming a country wishes to penalize domestic consumption of power, it can raise the price of power or the tax. In that case it is entirely a question of a return on the investment.

Mr. Knapp - If the proceeds are going to be invested, I would consider that a return on the investment. I gather that others don't agree with this.

Mr. de Wilde - Dividends don't go into investment but they are certainly to be included in the return on the investment.

Mr. Knapp - Throughout the section of the paper on irrigation there appears to be a theme of subsidizing agriculture.

Mr. de Wilde - The facts of the matter are that in underdeveloped countries industry has been subsidized so that most underdeveloped countries have to have a subsidy for agriculture for offsetting this.

Mr. Knapp - I agree with the first sentence of para. 49 and with the first part of para. 50.

Mr. de Wilde - We find that the policy is applicable to ^{the} power field possibly because of the monopoly situation of power.

Mr. Knapp - Also power is a fruitful resource.

I do not believe that this paper should go any further now. It was a very useful paper for discussion and not a holy writ. It has served its purpose.

Mr. Schmidt - Could we follow through by having a discussion on covenants covering earnings and capitalization? This would be helpful.

Mr. Knapp - There was a paper on that some time ago. Perhaps it did not go out.

Mr. Schmidt - I will look at that.

Mr. Diamond - There is one thing to follow through, and that is the consideration of the rate covenant.

Mr. Stevenson - I am still concerned about para. 50 as to whether it is a general policy or the policy which is generally applicable to the power field.

Mr. Knapp - Generally revenues should cover cost and earn an adequate return but exceptions will have to be made in the fields of agriculture and transportation.

Mr. Ripman - A study of the whole question of subsidies would be worthwhile.

Mr. Knapp - I agree. Could the Economic Staff come up with a paper on this subject?

Mr. de Wilde - There are three questions really: (1) the problem of incremental investment; (2) the determination of the cost of capital; and (3) the question of subsidies. All these would be quite a job.

Mr. Knapp - I think the Economic Staff could do a paper on subsidies and it should not be too much of a job to round up figures on the productivity of capital.

Mr. Aldewereld - In the future the TOD reports could indicate the cost of capital for the project under investigation.

Mr. Knapp - That seems something for the economic report.

Mr. de Wilde - Really there should be guidelines set up by the Economic Department to assist in determining this cost.

Mr. Diamond - Why do we not have an economic review of TOD papers made by the Economic Staff?

Mr. Knapp - Such a review should be by the Working Party operation, but we have to remember that the economist cannot come up with a fast figure for each project.

Mr. Lejeune - I assume that the same criteria that we have discussed here would apply to IDA projects.

Mr. Knapp - Normally we would give Bank and IDA projects the same treatment, except in those cases where borrowing from the Bank was not feasible because the project could not service a Bank loan and we would not want to lend to the government. Under ^{such} circumstances we probably would lend to the government and the government would lend to the borrower on conventional terms. ?

The meeting adjourned at 5:00 p.m.

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BOARDS OF GOVERNORS
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION - INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND
ANNUAL MEETINGS - VIENNA - 1961

September 22, 1961

Remarks by EUGENE R. BLACK, President of the
International Bank for Reconstruction and Development,
at the Closing Joint Session of the Boards of Governors



May I, at the outset, express sincere thanks, both for myself and for my associates, for the many kind words which have been said about the work of the Bank and IDA during the discussions here this week. Your continued understanding of and support for our varied activities in the broad field of development assistance are very heartening to us as we face the great tasks which lie ahead.

Much as I appreciate the compliments you have paid, I appreciate even more the constructive suggestions which so many of you have put forward for further improvement in the level of our performance. I will not, of course, attempt to comment upon those suggestions at this time, but I know that I speak for the Executive Directors as well as for the management of the Bank and IDA when I assure you that they will all receive our careful consideration.

Several Governors indicated disappointment that the Bank's rate of lending appears to be declining somewhat. I want to say to them that, in this situation as in so many others, figures tend to be misleading. It was essentially an accident of the calendar that the total volume of Bank loans for the past fiscal year was somewhat lower, rather than somewhat higher, than that of the year before. Before the end of the fiscal year we had, in fact, completed negotiations on several loans, aggregating over \$90 million, the final signature of which had to be delayed for technical reasons in the borrowing countries which were entirely beyond our control. The important consideration, of course, is not the total volume of loans contracted within any given twelve months; it is the volume and the continuity of the flow of business through our institutions over a period of time. I am glad to be able to tell you, therefore, that the Bank--quite apart from IDA--is now handling more business than ever before in its history, and that I foresee no slackening of demand for Bank funds.

In this connection, let me assure the several Governors who commented on the point that we are fully determined that IDA resources shall not be used as a substitute for Bank lending but shall rather serve their intended purpose of augmenting the total flow of development capital from both institutions.

Turning now to the IDA itself, I was greatly encouraged to note the general agreement among almost all Governors who spoke that the Association has an important contribution to make and that its potentialities are not to be measured by the modest size of its initial resources. As I indicated in my Annual Address, the time is not far off when we must face up to the question of just what role we want IDA to play in the whole field of development assistance, and what are the nature and size of the funds which it will need to play that role. In my own view, IDA can be an instrument of immense value, and I hope and believe that in due course it will so evolve.

In at least one respect, namely the scope of IDA financing, the discussion revealed some misunderstanding of the policies which the Executive Directors have adopted, and I want to say a word about that. The IDA charter permits, as you know, the use of IDA's resources for any project "of high development priority". The Executive Directors and Management are determined to make full use of the broad authority thus conferred upon us. In the economic sector, our financing will not be confined to so-called "infrastructure projects--we have already in view, for example, projects to finance an industrial development bank, an industrial estate, and irrigation and other agricultural projects. And we expect to be active in other sectors: in the field of water supply, for example, where the projects are often designed for both productive and public health purposes; in the challenging field of education and technical training; and in several other fields as well. But let me add one thought. The selection of the projects which IDA finances is the result of a process of consultation and mutual agreement; we can only finance projects when both we and the government concerned are satisfied that a high development priority will be served. It is thus a mutual responsibility resting not only upon IDA but equally upon the recipient governments to use ingenuity and broad judgment in selecting for IDA financing those projects, whatever their nature, whose effective contribution to development is likely to be greatest.

And that brings me to an important point. Several Governors have urged that IDA be administered in accordance with the dictates of our hearts. If what is meant is that, in using IDA resources, we must constantly have in mind the ultimate objective of improving the standards of life of the peoples of the underdeveloped world, I am in full agreement. But if the meaning is that we should substitute our hearts for our heads in investing IDA resources, I could not disagree more completely. For the one lesson of experience that more than any other has been borne home to me over the years is that the surest way of defeating our ultimate development objective is to use carelessly or ineffectively the scarce resources which have been entrusted to us. To finance a project that is not technically or financially sound, or which has a low development priority, or which has not yet been worked out to the point where its successful execution is assured--to do any of those things because we allow the urgency of the development need to becloud sound judgment--is, I suggest, to betray the responsibility that is ours. For let us never forget that money provided to the less developed countries buys nothing lasting for the peoples of those countries except as it is effectively invested either in additional physical facilities or, even more important, in the improvement of human resources. That is why we have insisted, and will continue to insist, on the same high standards of investment for projects financed with IDA funds as for those financed with Bank resources.

We recognize, of course, that no matter how successful we are in achieving high standards of investment, we will not adequately meet the needs and problems of our less developed members by project financing alone. Indeed, looking back upon the record of the Bank, the striking feature to me is how steadily we have evolved from what was at first essentially just a project financing agency into the more rounded family of development institutions that we have by now become. To the tool provided by the Bank's financial resources, we have over the years added other instruments of development: technical assistance and training programs; IDA and IFC; the mobilization and coordination of finance from many sources; advisory services of an ever increasing variety. But though we have traveled far, we are quite aware of our inadequacies in relation to the magnitude of the development task. We know that the road ahead is long and hard, but I am convinced that we are moving in the right direction. Given your help and support, we shall continue to press forward along that road and we accept with high hope the challenge it presents.

It remains for me only to say goodbye to you all and to wish each of you a safe journey home.

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6 weeks after Bay of Pigs
- Sense of Red Cuba now irreversible.

CONFIDENTIAL

SLC/M/61-24

Rough Notes of Staff Loan Committee Meeting held on
Wednesday, June 14, 1961 at 11:00 a.m. in Board Room

ECUADOR

Mr. Knapp - As I understand it, we are discussing creditworthiness and IDA-worthiness for Ecuador and not approving the projects at this time?

Mr. Schmidt - Right. If the projects materialize we would come back to SLC for permission to proceed.

Political Situation

Mr. Knapp - Judging from the newspapers, Ecuador would appear to be the next country on the list to go "Fidelistic" and the papers have pointed to Mr. Araujo as the possible leader of the revolt. As the mission report gives a much calmer picture, I would be interested to hear comments on this.

Mr. Davies - It is true that Mr. Araujo is a very powerful and dangerous man and it is reported that the Soviet Ambassador to Mexico, bearing large sums of money, has been in contact with Mr. Araujo. The bit question appears to be what President Velasco will do. So far he has neutralized Mr. Araujo by removing him from the Cabinet. However, there is always the possibility that, under pressure from the right, the President may turn to the left for support.

Mr. Broches - I was not particularly relieved by the statement in the Report that bankers and businessmen were the main influence on the present administration since they may not be sufficiently objective and sufficiently foresighted to avoid difficulties and may not express the desires of the bulk of the people.

Mr. Schmidt - Ecuador has always been difficult, with a long history of political instability. The present President is in his fourth term but the first two terms were never finished. However, there has been some improvement in recent years. First, the last three Presidents have managed to complete their elected terms. Second, the radical talk of President Velasco may serve as a safety valve. Third, Ecuador does have a record of economic development and there are opportunities for future development which might serve to relieve social pressures. The situation is certainly not perfect and requires watching but is not such that we should cease operations.

Mr. Knapp - What is the political risk of the submerged Indians, representing half or two-thirds of the population, who are still completely out of the political and economic picture?

Mr. Davies - The leftist movement has originated in the towns and cities and not in the rural areas. The Indian element is still inactive although the increased vote in the last election indicated that some political feeling is penetrating into the country. However, the total vote was only 300,000 or 400,000 out of 4.4 million.

Mr. Demuth - Is the leftist movement of local origin or part of the international Communist movement?

Mr. Davies - The leader is Mr. Araujo but he has certainly been in touch with Cuba and has been reported to have been in touch with the Soviet Ambassador in Mexico, as I previously stated.

Mr. Knapp - On the basis of the economic factors, it would appear that Ecuador has some margin of creditworthiness, but looking at the political risk, it appears to me that we are moving into pretty shaky ground.

Mr. de Wilde - Ecuador has a good record of economic and financial performance considering their size and situation and actually has had some economic growth but they are now facing a lower rate of growth which creates a very difficult situation politically for the Government. I wonder whether this isn't a strategic time for agencies interested in development, such as the Bank, to step into the picture in order to maintain the rate of growth and thus try to prevent deterioration in the political situation.

Mr. Knapp - That would be a better argument for the U.S. to go into Ecuador. That is the sort of salvage job that the U.S. must perform.

Mr. de Wilde - I don't consider this a salvage job. Ecuador has a good record, although it does need new capital now to avoid a decrease in the rate of growth. On economic grounds a case can be made for the Bank going in and I think that the Bank should take the political risk.

Mr. Broches - Where does Ecuador stand on the index of social injustices Mr. Kennedy has been referring to? ||

JFK

Mr. Schmidt - While there is great disparity in the distribution of wealth in Ecuador, this is less so than in other countries in Latin America. Also, Ecuador has resources of new land along the coast which can be tapped. It is not like Peru which has only a few valleys coming down to the sea. The Indians up on the mountains are still quiet although the Government has not really been doing very much on their behalf.

Mr. Demuth - In looking at the Latin American feudal countries, and I believe we have to consider Ecuador a member of this list, to be realistic we must assume that revolutions are going to occur and only hope that the revolutions will result in a new politically stable society which will honor the obligations of former Governments and with which we can live.

Mr. Knapp - The recent Cuban experience would not indicate that hopes should be very great.

Mr. Demuth - I don't think the revolution in Cuba is over yet. It is too early to judge. We can only hope that finally the revolution will result not in Castro but in the necessary reforms which Castro was demanding when he was challenging the Batista regime.

Mr. Schmidt - I have two comments to make on that. First, I think all the Latin American countries are in a process of revolution and possibly the most the Bank can do to assure that the eventual outcome will be a society the Bank can live with is to finance projects, as it has done so far, which will help the general welfare of the countries concerned, thus leading to a gradual evolution rather than violent social eruptions. The projects we have in mind for Ecuador are a continuation of just such projects as we have financed in the past.

Second, it is not intended to rush into these projects. We would move slowly and would watch the situation very closely.

Mr. Knapp - Castro has not shown any appreciation for foreign investment. However, you are probably right in saying that the good projects would survive the revolution.

Mr. de Wilde - And in addition, the revolution may be peaceful as a result of the wider distribution of benefits resulting from the project.

Mr. Aldewereld - Colonialism is certainly bad in Ecuador. I suppose I can even say it is worse than that in the Far East. ^{sic!} Something violent is going to happen. The question is, "What can we do about it?" I think that our projects do serve to relieve internal pressures but the country is still faced with external pressures. These I think the Bank has to accept.

Mr. Knapp - There are several things we could do about it. One, stop consideration of any Bank loan. Two, shift over to IDA operations completely. Three, pull out what we have invested. Four, avoid default by setting up a grace period extending beyond the period of possible revolution. !!

Mr. Aldewereld - I agree that we might consider more IDA money because of these political risks.

Mr. Rucinski - I am inclined to sympathize with Mr. de Wilde and believe that, if we had done more in Ecuador from 1958, the political situation would be less serious today, and suggest that we don't make the same mistake now. But I agree that we might do more IDA business than Bank because of the political risks. In sum, I suggest that we go ahead on a larger scale than has been suggested by the mission, welcoming the U.S. as a partner in this venture.

Mr. Knapp - In connection with a larger program, the minutes of the SEC meeting spoke of the necessity for help in development programming and the formulation of projects. How much progress has been made in these fields? Would they be able to handle larger amounts?

Mr. Schmidt - They have made progress. (1) The highway ⁺ program that they have submitted now is a big improvement over that submitted seven years ago. At that time they violated every concept of the Bank and would not listen to any arguments. Now they are proposing a sensible program of five roads, three of which the U.S. is financing. (2) They have started a planning office which is headed by an able man. (3) They have commenced a study of a national power program. In general the performance has been satisfactory recently and they are moving in the right direction.

However, it would be hard to make a large number of loans to Ecuador rapidly, particularly with the U.S. picking up all the good projects. However, I believe that we can wield considerable influence even though we do not contribute a great deal of money.

Mr. Kheradjou - The problem of "revolutions" is new to the Western Hemisphere and therefore may be over-emphasized. Communist pressure has existed on countries in other parts of the world for some time and has not prevented us from doing business.

Mr. Knapp - That is correct, but we are at the moment not doing any business in Viet-Nam.

Mr. Demuth - But we did considerable business in Iran, which has been under pressure.

Mr. Collier - I agree with Mr. Kheradjou and I think it is not a question of revolution but the nature of the society that comes out of the revolution. In Iraq, as far as I know, the investors are able to get along with the new Government. Moreover, Governments which take a neutralistic stand do not necessarily create risks for the investor.

I am also concerned about what arguments can be used to refuse a loan because of the external pressures and the internal political situation.

Mr. de Wilde - If the political situation were bad and the economic situation were bad, there would be justification for refusing to consider lending operations. In Ecuador the economic situation is satisfactory and I think that the Bank was set up to take the political risk. Therefore we should go ahead.

Mr. Knapp - That is true, but political situations do lead to defaults. The recent semi-annual report of the Eximbank surprisingly enough listed their loans in default, practically all of which were in Latin America, with Cuba heading the list.

Economic Report

The Economic Report is very interesting and well-done but the economic situation is not the issue here. Do we have any questions or comments?

Mr. Weiner - I should report that a \$10 million stand-by credit had been received from the Fund and the country has undertaken a currency stabilization program. The underlying balance of payments situation is fairly good.

Mr. Knapp - I suggest that para. 85 might be clarified. If there is a definite possibility of American and Foreign Power lending for hydroelectric power facilities, I think the report should say so, and if not, the reference to the possibility should be deleted.

Area Memorandum

The conclusion of the Area paper that there should be an IDA-Bank blend with two projects for the Bank and one for IDA is somewhat inconsistent with the other conclusions that the Bank consider lending \$10 to \$20 million for high priority projects in the next year or so, inasmuch as the Quito power project would require a loan of about \$6.5 million and the Comite de Vialidad highway project a loan of about \$3 million for a total of less than \$10 million.

Mr. Schmidt - That is right. The \$10 million figure was for the two present projects and the additional \$10 million we had in mind using for other projects which might come along.

Mr. Knapp - I think we should hold the decision on whether the other projects should be Bank or IDA. At the present time we agree to consider \$10 million for Bank loans.

Is there any other question on para. 17? I am prepared to accept these three projects on the basis on which we have been talking.

Mr. Broches - There is a question whether we should try for a broader scope, particularly whether we should move into agriculture. The two projects suggested are continuations of present projects.

Mr. Schmidt - I agree. As we said in the Report we intend to continue to explore the agricultural possibilities.

Mr. Knapp - My question is how. We have been trying for five years. Let us see if we can get something done now.

Mr. Schmidt - We have been trying to find a vehicle for agricultural credit. Klein and Saks, now working on this problem, are trying to sell an idea to the Government, we understand, of starting a new organization. We have not seen the report.

Mr. Knapp - I think the Bank should be helping to put over their suggestion if it is a good one. We certainly ought to study their proposal and make a decision.

Mr. de Wilde - The problem of agricultural credit cannot be solved merely by organization of a new institution. What we need is a properly supervised agricultural credit system.

Mr. Knapp - I agree with that but let's get some action.

Mr. Demuth - Since an agricultural project is likely to involve a large percentage of local expenditure financing which is more appropriate for IDA than the Bank and since the political problems originate in the agricultural areas helped by an agricultural loan, wouldn't it be better for the Bank to finance all the road and power projects and hold IDA financing for the agricultural projects, using the promised credit as a bait for setting up a proper organization to carry out the project?

Mr. Knapp - The radicalism does not originate in the rural areas. It comes from the urban areas. I certainly favor the agricultural credit but I think that if we are ever able to do that we could use additional IDA money above the amount we are now talking about for the national highway program.

Speaking of difficulties of ever doing this project, it is quite likely that the Inter-American Development Bank will preempt this field and probably make a mess of it, thus preventing achievement of worthwhile program.

ARD as political
anecdote !

Mr. Schmidt - That is possible. It's true that the injection of PL 480 money whenever the existing agriculture credit organization got in trouble has effectively prevented the necessary reform of the organization in the past.

Mr. Broches - Is our existing loan to the Comite in default? The memorandum mentions that the proposed loan would be to assist in completing five unfinished roads financed by Loan 94 EC.

Mr. Schmidt - While it is true they haven't completed the roads, even after several adjustments had been made in the agreement, one cannot say that they are in default on their performance under the agreement. To be frank, the appraisal made by the Bank at the time was not good. The cost estimate was too low so that it was impossible for the borrower to complete the project at the estimated cost in the time allowed. Even after the adjustments made, certain sections remain unfinished but they are usable and we have considered the performance acceptable in the circumstances.

Mr. Kheradjou - I have a question as to why one of the non-revenue producing projects was suggested for the Bank rather than IDA.

Mr. Knapp - In general it is probably a good idea to consider non-revenue producing projects for IDA and I started that way but here the Comite has had a long struggle, supported by the Bank, to maintain its independence which might be jeopardized if an IDA credit were made to the Government.

Mr. Kheradjou - From a tactical standpoint it might be wise to put the revenue producing project in IDA to prove what we have been saying, that IDA would look at projects with the same critical eye as the Bank.

Mr. Knapp - That may be so but it is offset by the disadvantage, I think, that they would expect easier treatment in IDA.

Mr. Rucinski - I have the same question as Mr. Kheradjou as to why not put both highways in IDA.

Mr. Knapp - As I said, the problem of maintaining the independence of the Comite convinced me, particularly as the small amount of \$3 million is not enough to justify a shift to IDA for creditworthiness reasons.

Mr. Rucinski - If it were in IDA, it would permit the financing of a higher percentage of local currency.

Mr. Knapp - Not much because we have been financing 45% of the total cost under the present loan. As the standard procedure for IDA is to finance 50% of the total cost, not much would be gained on this point by shifting to IDA.

I accept the recommendations of the Memorandum.

The meeting adjourned at 12:10 p.m.

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SLC/M/61-18

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Rough Notes of Staff Loan Committee Meeting held on
Tuesday, May 2, 1961 at 3:00 p.m. in Room 927

NICARAGUA

Sir William Iliff - I don't intend to discuss this afternoon the question of whether this project should be financed by the Bank or IDA. That is a question that will have to be settled on broader considerations than the position of Nicaragua. Therefore the discussion will be confined to the project.

On the project, I am concerned because the legislation will go into effect if 50% of the farmers in the area participate but the technical report suggests that as a condition of effectiveness for the Bank loan, evidence should be received that "a substantial and, in any case, not less than the legally-required number of farmers in the project area are prepared to participate on a basis satisfactory to the Bank."

Mr. Reid - In order to establish an irrigation district, a decree is required and the decree would not be effective until 50% of the farmers have agreed that their land should become part of an irrigation district. The percentage of farmers needed to form the district is their political problem. We have told them that we are very concerned over the extent of participation of the farmers because enactment of the legislation has taken so many months and the farmers are cynical about whether the district will ever be formed and, if so, whether it will be any good. Therefore we want to be sure the farmers will participate willingly before we go ahead.

Mr. Cancio - Actually there would be two laws: a general law to provide for the establishment of irrigation districts setting forth the principles on which they could be established and a second specific law for the establishment of each district.

Sir William - Assuming that the 50% participation is obtained and that the decree establishing this district goes forward and then we say that the participation is not adequate, I think we would be in a bad way.

Department Heads - Agreed.

Mr. Schmidt - I agree but I think that the proviso in the report was intended to refer more to the basis on which the farmers came in rather than to the number in excess of 50%.

Mr. Reid - The success of this project depends upon the willingness of the farmers to enter into it with the proper enthusiasm. The mere acceptance of half the farmers does not mean success.

Sir William - Then the decree is wrong.

Mr. Reid - Under the law, if 50% of the farmers vote for the establishment of the district, all must come in but the actual success would depend upon their willingness. We are thinking in terms of about two-thirds to determine whether the project will be a success but we don't want to put a figure on this because it depends upon not how many, but who. If the influential farmers in the community located in the center of the project are enthusiastic it will be successful. If the lower-status farmers on the edges of the area refuse to join, the effect upon the ultimate success of the project will be considerably less.

Mr. Aldewereld - The trouble is that the decree does not cover quality of the farmers but only quantity.

Sir William - I should think that we should be willing to accept 50% of the farmers and 50% of the land. We certainly are going to be in trouble with the Nicaraguan Government if we agree to the proposed legislation now and refuse to make a loan effective later.

Mr. Rucinski - Do we intend to tell the Nicaraguans how we proposed to judge whether we consider this participation satisfactory?

Mr. Reid - We have already told them that we are concerned about this and would want to be satisfied that a representative number of farmers (and an adequate percentage of the area), including the influential were prepared to enter into the operation.

Sir William - The danger is that we would end up with an abortive loan.

Mr. Reid - The Government knows that they must pass the legislation and get the participation of the farmers to a decree satisfactory to the Bank before we are prepared to go ahead and make the loan effective. The trouble is they cannot get the farmers' approval to participate until they have a Law and something from the Bank. The farmers are skeptical about the Government ever doing anything. Eventually the farmers will be asked to vote on the formation of a district but without something concrete it is questionable whether an objective vote is possible.

Mr. Aldewereld - This trouble is inherent in every situation where there is no previous experience with irrigation. The success of the whole operation depends on the willingness of farmers to come into it.

Sir William - It seems to me that you have the cart before the horse. These questions should be settled before we made a loan.

Mr. Aldewereld - We had the same worry. This question has already been put to them, but all depends upon the farmers. The Government needs the Bank's signature to get the farmers started moving. There is the risk that the farmers would not participate after the loan is signed.

Mr. Schmidt - This is a risk we have to take. We have to accept the judgement of the experts that this risk isn't very great and they also say that if we refuse to make the loan before the farmers have come in, that will wreck the deal because the farmers will think that we are backing out and that the whole thing would collapse.

Mr. de Wilde - I don't quite understand what the difficulty is about deciding on a number or percentage that would have to join to satisfy the Bank. On the basis of the data given in the report, I would think that it would be correct to say that if two-thirds of the farmers or two-thirds of the land had joined, there would be sufficient representation to assure enough of the influential farmers with properly located farms would participate in the project.

Mr. Aldewereld - It is true we thought roughly of using that figure but to give us more leeway we did not want to make a definite requirement.

Sir William - I favor 50% of the farmers and 50% of the land.

Mr. Cargill - Why do we have to have a loan before the legislation?

Mr. Cope - The requirements of the Law and of the Bank will have to be the same necessarily. There is no reason why we have to use the 50%. On the question of the quality of the farmers, I am just not qualified to answer. On the question of whether we should decide now or wait until the project is set up, I am inclined to think that there should be legislation before we make a loan but again I do not know much about it and think that the views of the Area, which has a closer grasp of this problem, should be weighted heavily in making this decision. If the Area feels that there are sufficient reasons for going ahead before the legislation, I would be inclined to accept their belief.

Mr. Cargill - What are the reasons?

Mr. Reid - We could not make a commitment before there was a district. The whole thing might drop.

Sir William - I would not be sorry if we did break off. I would be happier to see the legislation and the results of a census of the farmers on participation in the project before deciding whether we go ahead.

Mr. Schmidt - I suggest as an alternative we agree to negotiate the documents before the legislation and the census as an earnest of our intent but do not send the loan proposal to the Executive Directors until these things have been done.

Mr. Broches - I am told by the experts that all farmers have to receive bribes and be coaxed to do what is right, therefore the suggestion that the farmers have to have something in hand before proceeding is not shocking to me but I am not in a position to judge whether in this case they need something from the Bank before they start. I do agree with Mr. Cope that it isn't necessary to make the Bank's requirements coincide with the legal requirements.

Sir William - If the participation of 50% of the farmers is not sufficient for our purpose, I question whether the project should go forward at all. Should they be doing it?

Mr. Schmidt - The 50% is just a mechanism to start the project to get everybody in. It does not mean that only 50% are in favor once it gets started. The same system is used in the U.S. for school districts and in the West for irrigation districts.

Sir William - Let us assume that we are prepared to give a moral commitment to make a loan if the census of the farmers shows a satisfactory percentage of willing participants. What would be the reaction of the Nicaraguans?

Mr. Schmidt - I think it would be better and safer to have negotiations in order to set the issues down clearly on paper, but to tell them that we would not put the documents to the Executive Directors until the legislation had been passed.

Mr. Rucinski - Do they really want a loan? You don't have to have negotiations to reach agreements on the various points. If they are really interested in a loan there isn't any reason why they could not get started on it. I wonder whether the priority of this project is so high that other projects could not be substituted for it, which did not have this question, particularly as there are other difficulties.

Sir William - Let us hold the other difficulties for the moment. I would be willing to go ahead on the basis of Mr. Schmidt's suggestion.

* * * * *

Para. 20 of the Technical Report shows that the present net value of production is 378 cordobas per hectare whereas paras. 49 and 50 say the total of amortization and operation charges for the farmers would be 556 cordobas per hectare, meaning that production would have to treble in order to keep earnings for the farmers at their present level. Is the great increase required possible?

Mr. Reid - Because this is the first irrigation district, there is the possibility of high-return intensive farming of bananas, sugar and vegetables, producing sufficiently high returns to enable the farmers to meet the charges. We have already cut down on the estimates of the returns as we were somewhat concerned about this also. We have already informed the Government that the farmer might have trouble in meeting these payments. The Government wants to run the operation in a businesslike way and insisted on the charges to cover all the costs, however, payment by the farmers could be extended over a longer period of time. We did not press this as we did not wish to encourage the Government at this time to back away from their commercial approach.

Mr. Schmidt - The charges actually are lower than the present charges on private irrigation systems in Nicaragua.

Mr. de Wilde - Doesn't this whole question depend on how rapidly and how well the farmers take to irrigation farming? If they understand the operation, the returns might well be sufficient to meet the charges as envisaged but if they have difficulties adjusting to the new form of agriculture there may be difficulties.

Mr. Reid - There is some pump irrigation now but most of the farmers are going to have to learn the new operation, consequently a big training effort will start in the first year of the irrigation district. There is a chance that the payments will have to be delayed.

Sir William - Has the Government said that they would agree to extend payment?

Mr. Reid - We have discussed this matter with them and their attitude was to try on the basis proposed; the payments can always be ~~excluded~~ ^{reduced} later if necessary.

Mr. de Wilde - I also share Sir William's skepticism about the ability of the farmers to meet the payments as scheduled. It may be that payments will have to be revised and the production built up to the ultimate return more slowly than envisaged in the report.

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Sir William - Re para. 41, would the local currency costs to be financed by the Government be under a contract?

Mr. Reid - Yes, and the contract would have to be acceptable to us.

Mr. de Wilde - In para. 5 of the covering memorandum, I question whether the statement that the "percentage held in large holdings is not extreme" is entirely accurate. This depends on one's measure of what is extreme. I have calculated that 1% of the people own 40% of the land. Also the statement that the investment in the project is to be fully repaid by the land-owners who benefit from the project is of doubtful value as the report does not say how much of the increased return the Government would get. I presume that the landowners would get the bulk of the increase so the statement made is not meaningful.

Possibly consideration should be given to raising the charges to increase the Government's share of the increased return or to redivide the property.

Mr. Schmidt - We considered this problem and decided against urging redivision of the property because we felt that the distribution of the land was not too inequitable and we were anxious to get the project started. We felt it was better to get this under way because it will help the economy rather than to hold it up waiting revision of the land ownership pattern.

However, because of the problem we thought the Government should explore the possibility of other irrigation projects in order to develop as soon as possible more land for the use of the people.

Mr. de Wilde - I am not urging land reform at this point. It may be that the large holdings are the most economical size. I was merely raising the question whether the percentage of the Government's take in the return should be increased.

Sir William - I suggest that in putting this project forward, you merely say that on balance you have concluded that the Bank should not require any change in land ownership as a condition to financing the project and leave it at that without going into the details that you have presented in the paper since they are subject to question.

Mr. Schmidt - The land distribution in the area of the proposed irrigation is not extreme compared with the situation in the rest of Latin America.

Sir William - It is certainly extreme in comparison with condition in India and Pakistan.

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On the problem of the large holding of the Somoza family, I think we have to tell the Executive Directors of this situation.

Mr. Broches - I am told that the Somoza family is in everything and it would be difficult to find anything in Nicaragua which did not raise this problem.

Mr. Bochenski - They are in many things: principally cattle, shipping, ports, textiles, sugar and, to a lesser extent, land. However, this project was not picked because of the interest of the President in this area. The land was picked by a FAO expert after a long study and survey.

Mr. Reid - It is correct it was not picked for that reason and the interest of the President was known from the very beginning. This fact worried Mr. Tipton, leader of the FAO mission. With this in mind he looked for other areas before deciding on this particular one.

Mr. de Wilde - The interest of the President will probably lead to criticism of the Bank but I think the Bank will just have to be prepared to take the criticism and point out that this is the best area and that lots of other farmers unrelated to the President stand to gain by investment in this project.

Mr. Cavanaugh - I am concerned that we would appear to be fostering an arrangement under which people will be urged or required to sell land that the President wants. Therefore the proposal is certainly not a good one.

Mr. Cargill - If the project itself is satisfactory I don't believe that the interest of the president is such a problem that the whole thing should be held up.

Mr. Cope - I agree that the interest of the President should be fully disclosed. I am not very enthusiastic about this operation but I think it would be hard to turn down at this point.

Mr. Rucinski - I agree that it is too late to turn it down but wonder if it is of such high priority that it is impossible to consider substituting something else. It has been said that we can't find anything else that Somoza is not connected with but I believe the fact that this is a land project makes it particularly subject to criticism because the land reform question is so delicate. I would prefer something else if we could find it.

Mr. Aldewereld - Despite the troubles we foresee in getting the project started, it is not a bad project. The problem of the land holding and Somoza ownership is an unfortunate one but it is one that we have been aware of from the very start and I think it is too late to raise this question now.

Mr. Broches - I don't find it an attractive situation not so much because of Somoza but because of the large holdings of a few people, but I don't see how we can get out at this point.

Mr. Reid - On the question of the large holdings I should point out that three of the big holdings are on the outside edge of the area and consequently not of as great importance as they might be. Disregarding these, the large holdings amount to about a sixth of the irrigable property. This isn't anything like the situation in Dez where a few people owned the whole works.

Mr. Aldewereld - I agree it is not as bad as Dez but there we had a lot of mental anguish before reaching a decision to go ahead and we did so in the hope that there would be a change for the better.

Mir William - I will certainly have to put this situation to Mr. Black and warn him that there is a real likelihood of criticism. There is also a question whether we should warn the Executive Directors before the project is presented to them formally. I will first talk to Mr. Black. I would certainly prefer to have President Somoza go ahead and finance this project with other resources and we could take something else.

The meeting adjourned at 4:05 p.m.

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ADDRESS TO THE ECONOMIC AND SOCIAL COUNCIL
OF THE UNITED NATIONS, NEW YORK, APRIL 7, 1961
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By Eugene R. Black, President of the World Bank



Mr. Chairman and Gentlemen:

This year I am making my annual report to you in a period when world tensions are particularly acute. Like millions of other people, I have been following events in this United Nations building with deep and anxious concern over the past 12 months. I am aware, of course -- as all of us are -- that the political difficulties with which the United Nations is struggling are reflections in many cases of economic problems; no lasting political solutions can be expected until much more is done to remedy the economic ills which afflict so many countries.

In these circumstances it is all the more important that the Economic and Social Council should continue to seek cooperation among nations to deal with the financial problems of our time. It is now acknowledged everywhere that much more assistance must be rendered to the less developed countries by those more fortunately placed. But the needs for financial assistance are of such great magnitude that it is vitally important to ensure that aid is used in such a way as to contribute the maximum to the economic growth of the recipient countries.

The World Bank is itself, of course, a great cooperative of nations. What has been going on in our affairs over the past year can be taken as a good sample of the whole picture -- and the past year has been a very busy one for us. Our rate of lending in the last fiscal year was maintained close to \$700 million for the third successive year. In the first nine months of this fiscal year new loans have totaled \$380 million. That our volume of loans remains high despite the several new sources of finance which have become available indicates how large is the demand for development investment.

Geographically, the bulk of our lending continues to be in Asia, but Africa accounted for almost one-third of the Bank's lending in the last fiscal year. There has also been increased lending in Latin America, a development which reflects the degree to which some Latin American countries, despite reduced prices for their products, particularly coffee, have taken hold of their internal economic affairs and brought them to a state of order which provides a suitable basis for further economic growth. I think, Mr. Chairman, that the Council should take note of the increasing number of Latin American countries which have recently attained relative stability after several years of acute inflationary difficulties. Readjustment in such circumstances is not easy and calls for sacrifice and discipline on the part of the peoples concerned. It is my hope that this new outlook on the part of those responsible for financial affairs in the Latin American countries will be sustained. For our part we look forward to increasing activity in that region.

In reporting these increases of Bank lending in the less developed regions I must also report a balancing factor, a considerable decrease in our lending in Europe. In calendar 1960 we made only one loan in Europe, of \$25 million. It is cause for great satisfaction that Western Europe is in a position to satisfy its own needs for capital.

But Western Europe has not only made a negative contribution to the Bank, in the sense of abstaining from drawing on our loan funds. It has also made positive contributions of great importance by providing increasing amounts of money for lending elsewhere, both through the Bank and in other ways. The Annual Report before you records that, in our last fiscal year, two-thirds of the Bank's borrowing was outside the United States and included issues of bonds or notes in Germany, Switzerland and the United Kingdom. This situation has continued to prevail and all our borrowing so far in this fiscal year has been outside the United States. In September last we sold a \$100 million issue of bonds by private placement with 47 institutional investors in 29 countries outside the United States. And we have made two public issues of bonds on the Swiss market, borrowing a total of 160 million Swiss francs equivalent to about \$37 million. In January of this year we made very satisfactory arrangements with the Deutsche Bundesbank, the Central Bank of West Germany, regarding the equivalent of \$360 million of our notes held by the Bundesbank which were due to mature at intervals during 1961 and the ensuing two years. The effect of these new arrangements was to lengthen these maturities so that we shall not be called upon to redeem the earliest of them until 1964. Agreement by the Bundesbank to these transactions was very helpful to us and was one more example of the cordial cooperation which we continue to receive from the Bundesbank and from the West German Government in financing our operations. In fact, Germany has been the largest provider of funds for World Bank operations for the past three years -- total outstanding Bank borrowing from Germany, public and private, is now equivalent to over \$750 million.

So much for the financial aspects of the past year. But I often feel that the Bank's lending and borrowing are only the most noticeable part of the

iceberg -- the fraction which shows above the surface. A great deal of the Bank's time is spent on a variety of other, less publicized, activities directed at trying to assist the economic growth of our member countries. Our engineers and financial experts are engaged in regular visits to our member countries, investigating on the spot not only the progress of existing projects but the proposals for new projects which are constantly coming in. In the course of their duties these men are often able to render important technical assistance, especially when, as so often happens, the type of project being embarked upon is novel and requires new kinds of expertise on the part of the member country. Others of our staff, often accompanied by consultants employed especially for the purpose, are engaged directly in technical assistance work, advising our less developed member countries on ways of coping with particular problems. Of particular interest in this connection are national transportation surveys which we have helped to organize in Argentina, Colombia, Peru and Spain. We have also continued to respond to requests from many countries for assistance in the establishment, reorganization and operation of industrial development banks.

And during the past year we have had three general economic survey missions out in the field -- in Venezuela, Tanganyika and Uganda. Reports of two survey missions, which recommend the basis for long-term development programs, have recently appeared in book form, concerning Libya and Tanganyika. A third report, on Venezuela, will be published in May and the report on Uganda is now being written. I am glad to say that in all cases the governments have begun to act along the lines of the mission reports even before they were published to a wider audience. Demand for this kind of help continues. We have one mission in Spain now, another in Kuwait, and we are considering a mission to Kenya. In addition, within the next month or two, missions of

slightly narrower scope will go to Chile and the Philippines to review their development programs.

Another important field of technical assistance is our work for the United Nations Special Fund. Mr. Hoffman has asked us to be Executing Agent for several of the projects undertaken by the Special Fund and we have handled a wide variety of surveys, including power and transportation in Argentina, a river valley development study in Nigeria and a mineral survey in Surinam. In all the Bank has been asked to act as Executing Agent for eight Special Fund projects in seven countries.

Then there is another type of effort in which we are engaged. We now call together at regular intervals a consortium of countries interested in the financing of the Indian Five-Year Plans. A meeting of that consortium will take place in Washington ~~later~~ this ~~month~~^{WEEK}. We have also organized a similar consortium to coordinate ways of assisting the Pakistan economic plan, and this group will meet in May.

Our work in connection with the Indus Basin has now, I am happy to say, moved from negotiation to action. When I addressed you last year I was able to be optimistic about the chances of an Indus Basin agreement and my optimism turned out to be well founded. The Indus Waters Treaty was signed last fall and also the Indus Basin Development Fund Agreement, whereby several countries generously joined to contribute almost the entire cost -- about \$1,000 million -- of the massive works which are needed in Pakistan to carry out the settlement. The Bank is administrator of the Development Fund and no time has been lost in calling for international tenders for the large projects which are involved.

Turning to another subject, I have to report to you, as Chairman of the International Finance Corporation, that the investments made by the Corporation

during the past year have continued at the level reached in the previous year; 14 new investments have been made, aggregating about \$16 million. The Corporation has now made 37 investments totaling \$42.2 million in 17 member countries. Of the projects in which IFC has invested during the year, eight are owned and managed by residents of the country where the project is located; five are joint enterprises of local and foreign ownership and management; and one is a subsidiary of a foreign firm.

Of considerable importance is the move to amend the Corporation's Charter to permit it to make investments in capital stock. Under its Charter at present, IFC is prohibited from investing in capital stock or shares, and the experience of four and one-half years has now convinced the Directors and Management of IFC that this restriction is in practice a serious handicap both to the growth of IFC's operations and the mobilization of private capital for foreign investment. The proposed change is being submitted to IFC's Board of Governors for action.

In addition to these varied activities, the Bank has been very busy bringing into being the International Development Association. IDA already has over 45 signatories, with subscriptions totaling \$900 million, and we have a lengthening list of likely IDA projects under investigation.

The range of these projects is wide, both in geography and type. They are located in Asia, the Middle East, Latin America and Africa, and they include water supply, irrigation works, road development, port facilities, rural electrification, telecommunications and industrial estates. Under its charter, IDA is to support projects which can contribute most to the development of the country concerned, whether or not they are directly productive. IDA will finance all the kinds of projects which the Bank finances and a broader range as well,



including, I hope, a number in which other specialized agencies of the United Nations will have a direct interest. This wide variety of projects, many in countries at very early stages of development, may well make the task of processing IDA credits more difficult than processing Bank loans. Nevertheless, IDA will apply the same high standards in project preparation and execution as does the Bank. The fact that IDA's management and staff are the same as the Bank's will facilitate this.

IDA's charter does not prescribe terms of financing, other than to specify that they shall be flexible and shall bear less heavily on the balance of payments of borrowers than the terms of conventional loans. Although this does not necessarily establish a general pattern, we have decided for the first projects to provide IDA financing in the form of 50-year development credits, free of interest or commitment charge. These development credits will be repayable in foreign exchange, thus avoiding the accumulation of large quantities of local currencies. Amortization will begin after a ten-year period of grace, and the credits will carry a small service charge, designed to provide IDA with income to meet its administrative expenses. I was pleased to note that the United States Administration wishes to adopt similar terms for its bilateral development loans.

We believe that IDA's objectives can best be served by limiting the availability of IDA funds to countries which, for reasons beyond their control, are not able to finance a satisfactory rate of development with their own resources plus conventional financing. Thus IDA borrowers can be expected to include not only countries whose foreign exchange situation is such that they cannot borrow abroad at all on conventional terms, but also those whose foreign debt service burden over the short and medium term is already so high that they cannot

No reference to a
cut-off.

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prudently borrow, on conventional terms, all of the external capital which they require to carry out their priority programs. It is already clear that the needs of these potential borrowers for development credits of the type which IDA can provide are far greater than can be satisfied with IDA's present resources. I am hopeful that in due course the obvious need, and IDA's record of performance, will together justify a substantial increase in IDA's financing capacities. I would hope, too, that countries contemplating an expansion of their aid programs may see fit to channel a part of the additional funds through IDA. Such a pooling of resources, I am convinced, is by far the most effective and satisfactory means of coordinating development aid.

But we should be less than wise if we were to place all reliance on new institutions providing development finance on easier and easier terms. There is a limit to the funds that capital-exporting countries are willing to provide. There are also movements in the less developed countries themselves which vitiate all efforts to raise world living standards. One of the most massive of these obstacles is the tremendous rise in the populations of already crowded countries.

For every four persons on earth in 1950, there are today five. For every five today, in 40 years there will probably be ten. In the past half-minute alone, about 90 babies will have been born into the world; only 60 persons will have died, leaving a net increase of 30, or one every second. This rate of growth last year added the equivalent of the population of Italy to the world's millions, and the rate seems to be accelerating. In 1961 it will probably push the population of the world past the three billion mark, and it will double that figure before the end of the century.

Three hundred years ago there were probably no more than 500 million people alive in the world, and the total was increasing only slowly. This

stability was maintained by an uneasy balance between high birth rates and death rates. Many babies were born, but many also died. Living conditions were such that many of the remaining children failed to survive beyond the age of thirty.

In Europe, the picture began to change in the late eighteenth century. Populations began to grow, sometimes very fast. Elsewhere the balance of new lives against deaths has been upset largely in our own lifetime. The pattern has been a steep fall in death rates, with birth rates little changed. But the circumstances have been somewhat different from the earlier European experience. The population revolution has often been achieved very cheaply. In Ceylon, to take the best-known example, the expenditure of \$2 a head on a public health campaign with the prime purpose of eradicating malaria reduced the death rate by three-quarters over a single decade. Similar stories can already be told of public health programs undertaken in other countries, and there will undoubtedly be more in the future.

Of course we welcome this trend, whatever the problems it may set for us. We all want to reduce the suffering and waste involved in premature death or disabling disease, and we can expect death rates to go on falling in the developing countries. Medical science continues to discover increasingly effective ways of promoting public health, and since governments can usually act on behalf of the community in putting these new techniques to work, we may expect them to be applied as soon as the money can be found to pay the accompanying bill. People will live longer in the future.

But if only 20 people -- or even fewer -- in every thousand are henceforth to die each year, then a birth rate of 40 per thousand, which formerly just kept the population steady, will bring an explosive growth in numbers.

And there is little reason to suppose that birth rates will soon decline to match the fall in death rates. It is much simpler to attack disease than it is to alter the reproductive pattern of a society. Medicine has yet to make available a cheap and easy method of regulating births. And not everyone wants fewer children.

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What view are we to take of all this?

I am not convinced that population growth will eventually outrun the development of the world's resources. It is true that at present rates of consumption we will use up the known reserves of several important fuels and minerals within a few decades. Heavy demands will certainly be made on our agricultural resources, and there may be acute difficulty in organizing the movement of food and other necessities about the world on the scale required to meet the needs of a population twice its present size. But I am inclined to think that those prophets who forecast the exhaustion of the earth's resources, underestimate the ingenuity of man and the potentialities of science. And I am not too disturbed about the long-run problems of feeding the extra persons we expect, although I find myself a little out of sympathy with some of our professional agricultural optimists -- it seems to me Utopian to expect that every country will be cultivated as efficiently as Denmark, and that thereby the world could easily feed twice its present population.

But all this does not mean that we ought to welcome population growth on the scale that we see it today.

Some people argue that a big population implies a good market for the businessman's product: he can use mass production techniques and charge low prices. They insist, too, that with a growing population, the businessman

constantly finds demand exceeding his estimates. Optimism and production run high; new products win ready acceptance, while obsolete industries die painlessly; the incentive to invest is strong; and social mobility and change are encouraged. The burden of social costs is spread widely. By contrast, they suggest, a declining or even stationary population brings pessimism and economic stagnation; there is insufficient reward for private enterprise, and the state is thereby forced to intervene increasingly in fields better left to the private citizen.

This body of theory may conceivably be true in the circumstances of a rich country with resources to spare. But it is wildly irrelevant to the problems of most developing countries today.

It is, of course, a fact that some of the poorer countries do not have domestic markets big enough to support mass production industries. But it is clearly ridiculous to suggest that inadequate population is holding back the development of, say, India, which packs more than twice the population of the United States into less than half the space. Where most people go barefoot for lack of shoes, industry is not failing to grow because its products are not wanted. Where the agricultural laborer can find work to occupy him for only half the year, no further pressure is needed to make him wish for a different occupation. Where two-thirds of every dollar of income must be spent on food, where manufacturing industry is almost non-existent, one need not worry that excessive saving will lead to under-employment of resources. The lash of further poverty is not required to drive these people to action. The developing countries need many things - not only capital, but the skills and health to make good use of it. By no means do all of them need population growth.

* * * * *

But need it or not, they have it. They should ask themselves if they can afford it. In Asia, in the Middle East, in Latin America, in Africa, the population of most countries is growing at the rate of 2% annually -- and sometimes 3-1/2% or more. In most of Latin America and Africa there is fortunately room for the extra people. In the long run, although not now, there should also be adequate resources available to feed, clothe and house them. But in many parts of Asia and the Middle East, resources are few, and there is not nearly enough room. Agricultural land which once sufficed to support a stationary and much smaller population has already been divided and subdivided beyond the limits of effective cultivation. Cities are crowded to bursting, and are still getting bigger.

Population growth on this scale would be a serious challenge to a country with adequate living standards. Where incomes are very low, and economic development is a desperate need, such growth can be a crippling handicap.

The speed at which a country develops depends largely upon its ability to direct its growing resources to investment rather than to consumption, to uses which will raise tomorrow's output rather than satisfy today's demands. A poor society finds it difficult to save at all, and will be doing well if it can set aside 10% of its income. At this rate, if its population is growing, it will barely be investing enough to stay where it is. Yet the likelihood must be that it will invest not more than 10%, but less: a growing population with a high proportion of dependent children will find it increasingly difficult to spare any of its income from consumption.

Unless foreign aid can be increased, a country in this position is faced with a stark alternative. It must reduce its savings, or lower its living standards -- although both are already inadequate.

The industrialized countries have shown their willingness to help. Common humanity and self-interest alike impel them to do so. All the evidence points to a greater flow of aid in the coming years. But I find myself increasingly doubtful whether domestic savings and foreign aid together will be sufficient to allow real progress, if present rates of population growth continue for long.

Figures are hard to come by in this field. But it may be possible to indicate some orders of magnitude.

Some calculations have been made about the cost of providing houses in India during the next generation, if the population continues to grow at its present rate of about 2% a year. If you disregard the cost of rural housing, on the somewhat optimistic assumption that it can be carried out entirely with local materials and labor, then you still have to pay for the homes of nearly 200 million extra people who, it is expected, will be living in India's cities 25 years hence. Making full allowance for the fact that many of the extra persons will be children needing not new houses, but simply more space in existing households, a sober estimate of the cost suggests that in the 30 years between 1956 and 1986 a total investment in housing of the order of 118 billion rupees, or roughly \$25 billion, will be needed. If you find a figure like that difficult to grasp, I may say that it is well over four times the total lent by the World Bank in all countries since it started business 15 years ago. Put another way, it is more than 30 times the initial resources of the International Development Association -- and those resources are supposed to cover IDA's first five years of operations.

My cost estimate takes no account of the need to improve existing housing in such cities as Calcutta. It leaves out the cost of roads, sewage systems,

water supplies and other services. Yet the problems of urban growth form only a small part of the challenge presented when economic development is attempted in the context of a vast expansion in population.

In the social field, many more new hospitals and clinics will be needed, simply to maintain present standards -- standards which by common consent are sadly inadequate. Far more must be spent on education. Here look again at India, not because its problems are unusual, but because they are well documented. In 1956, about 31 million Indian children were getting an education -- less than 40% of those of school age. It is mathematically certain that if the population grows as expected, a three or fourfold increase in educational investment will be needed if all children are to be receiving an education by 1976. When you come to productive investment, the story is similar. Enormous investments will be needed. But population growth does not only tend to reduce the flow of investment funds. It also means that the capital invested in industry must be spread increasingly thinly over the labor force: each pair of hands is backed by fewer dollars of capital. Productivity suffers, and the gap in living standards between the developing and the industrialized countries widens, instead of narrowing.

I must be blunt. Population growth threatens to nullify all our efforts to raise living standards in many of the poorer countries. We are coming to a situation in which the optimist will be the man who thinks that present living standards can be maintained. The pessimist will not look even for that. Unless population growth can be restrained, we may have to abandon for this generation our hopes of economic progress in the crowded lands of Asia and the Middle East. This is not a field in which international agencies can do much. But there is scope for governments to act: it is time that they gave earnest attention to this threat to their aspirations.

Population growth does not alter the rules for successful economic development. On the contrary, it reinforces their strength by increasing the penalties for breaking them. In relation to the need, capital is short, and must be stretched as far as it can possibly go. In the developing countries, therefore, the first question to be asked of any economic policy must be: "Is this the road to maximum economic growth?", and if the answer is "No" we must look very closely at any doctrines which are put forward to excuse this sacrifice of economic advancement.

For the providers of economic aid, this situation implies a duty not only to see that the money is properly and efficiently applied, but also to guard against the temptation to use development assistance to achieve their own commercial or short-term political objectives, rather than to serve the priority needs of the recipient countries. For the developing countries themselves, it implies that they must realize that they least of all can afford to accept low returns on their investments. They cannot afford to waste scarce resources by putting prestige ahead of real need, by ignoring hard economic calculations, by refusing to accept productive capital while they debate for years the respective roles of public and private enterprise.

At best, and even if real sacrifices are made by the industrialized nations to increase the flow of aid, there is grave danger that, in the face of existing rates of population growth, the resources available for economic development will fall short of the needs of the developing countries. We bear a heavy responsibility toward succeeding generations to make the best use of all our resources.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

To: Staff Economic Committee Date: April 12, 1961
From: M.H.R. Jordan
Subject: A Project in Nicaragua - Bank or IDA?

The Staff Economic Committee met on Thursday, April 6, 1961 to discuss whether in the light of Nicaragua's economic situation an irrigation project under consideration should be a Bank or an IDA operation. A short memorandum describing the project had been prepared, but the discussion was directed to the particular issue just mentioned.

Creditworthiness

It was pointed out that Nicaragua was creditworthy for a loan of the size envisaged since the burden of service on the outstanding external debt was small, and export earnings were expected to rise over the next few years. This fact, it was conceded, would not necessarily disqualify the country from IDA credits in the future. In the longer-run, eligibility for IDA assistance would depend on the volume of capital imports required to provide a satisfactory rate of economic growth; that is, in Nicaragua, something above the 3% annual increase in the population. Such a rate, depending on the volume of domestic savings, might well entail external capital requirements over the years ahead which would exceed the country's capacity to borrow on conventional terms. There was, however, little or no information on domestic savings, investment requirements or plans to help to determine these requirements. Some tentative discussions with the Nicaraguan Government had taken place concerning the possibility of the Bank assisting in drawing up a new investment plan, so that it might be hoped that the essential data for deciding on IDA assistance in the future would be available before long.

Comparison with Other Countries

Some discussion was devoted to comparisons of eligibility for IDA credits between Nicaragua and Honduras, and with the Sudan. It was conceded that superficially Nicaragua's situation appeared to be similar to that of Honduras for which the SLC recently approved IDA assistance. However, it was pointed out that Honduras was a poorer country and, unlike Nicaragua where there was a comparatively vigorous private sector, depended more on a public investment program, which it was in the process of carrying out, to achieve growth. The Sudan had a still lower level of per capita income, and required a substantial amount of foreign capital over the years ahead, which would increase the proportion of debt service payments to both its foreign exchange earnings and gross national product if they were made available on conventional terms. 2/0

Absorptive Capacity

[In the course of this discussion members of the Committee agreed that, in general, a low level of per capita income and a need for foreign capital beyond the limits of a country's creditworthiness were by themselves not sufficient conditions of eligibility for IDA assistance. A capacity to utilize investment funds effectively would also be necessary. Nicaragua, it was suggested, had shown an ability to achieve a substantial rate of growth in the past and presumably had a potentiality for further progress even though it is at present undergoing a period of adjustment and the volume of new investments needed is uncertain.

Other IDA Criteria

Some members of the Committee were concerned lest countries be forced to use up its margin of creditworthiness first before becoming eligible for IDA terms. In this connection it was pointed out that the Bank had already decided in principle that this should not be a prerequisite for IDA operations. No decision, however, had yet been made regarding the rate at which a country should be expected, over any period of years, to push its conventional borrowing toward the limits of its creditworthiness.]
The Committee thought that the mere availability of IDA funds did expose the Bank to the temptation to apply its own standards of creditworthiness for Bank lending more conservatively and felt that this temptation should be resisted as far as possible in order that the aggregate volume of financial assistance by the Bank and IDA together to the underdeveloped countries could be increased.

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ferestall

The Division of Projects Between the Bank and IDA

The Committee also discussed what distinction might be applied between projects to be financed on Bank or IDA terms in countries where aggregative considerations indicated that some blend of Bank lending and IDA credits was appropriate. It was generally agreed that there was no economic justification (as distinct from public relations considerations) for allocating projects to one or the other institution for financing so long as they were an integral part of a well worked out and feasible investment program.

It was pointed out that the availability of financing on soft terms might make it feasible for countries to expand their total investment programs by including projects with a lower rate of return than before.

cc: Staff Loan Committee

Staff Economic Committee: Messrs. Rist, de Wilde, Hoffman, Adler, Alter, Avramovic, Gilmartin, Kamarck, Larsen, Sadove and Weigel.

In Attendance: Messrs. Bochenski, Brakel, Hayes, Thompson.

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OFFICE MEMORANDUM

TO: Messrs. Schmidt, Diamond

DATE: February 2, 1961

FROM: Gerald Alter

SUBJECT: Notes on SEC meeting - Jordan

The attached notes on the SEC meeting on Jordan are of particular interest in that they reflect the uncertainty concerning criteria for I.D.A. assistance which is now so prevalent in the Bank.

1957: Hussein Troubles - reform blocked. Propaganda attack by Nasser. Chairman of Lebanon asks Ike to help Hussein. #10' vs aid. July 1957 uprising Oman vs. Muscat-Oman Sultan (UK protectorate). Aug 57. Syria a govt → pro-Moscow. Maronites (Turkey) decides to oust Syrian govt.

Attachment

GA/mwm

July 58 Coup. Faisal killed. Anti-Western. General Karim Kassim friendly to UAR. Undercut Baghdad Pact → Lebanon aid request. Marines Beirut + British marines to Jordan. ^(Israel + Kuwait alarm)

1959. Kassim withdraws from Baghdad Pact. "the Iraqi reputation was expected to entail the disappearance of the monarchy in Jordan." (Peter Calocoressi 313).
Nasser 1961 "belligerent to Jordan (Bowles: 372)"
↑ Hussein 1953 16
1958 21

principles

Strain from "3" "gifts" 4 "p"

precedent 5 (p6 - others) 7 "poor + special case"
cost-sharing

Jord poor 7.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
OFFICE MEMORANDUM

To: Staff Economic Committee Date: February 1, 1961
From: M.H.R. Jordan
Subject: Current Economic Position and Prospects of Jordan

The Staff Economic Committee met on Monday, January 30, to discuss the draft of a report entitled, Current Economic Position and Prospects of Jordan. The Mission pointed out that the report was intended to examine the country as a potential recipient of IDA assistance, and the Chairman noted that this was the first time that the Committee had had to consider a report of this kind.

Criteria for IDA Assistance

The Committee was concerned that positive criteria for appraising a country's claim to IDA assistance besides a lack of creditworthiness for conventional Bank lending had not already been established. Several possible criteria were mentioned; the need for funds to assist a country attain a stage of self-sustaining economic growth, the determination and ability of a country to put the funds to productive use (broadly construed), or the existence of such a low standard of living as to justify help on welfare grounds. However, the Committee felt that it was not clear what priority these, or other, criteria were to be given in appraisals of this kind.

The Eligibility of Jordan for IDA Assistance

The Committee acknowledged that Jordan was not creditworthy in terms of Bank lending criteria, but asked whether the country needed IDA funds in view of the substantial flow of international assistance which it already received and of its past tendency to accumulate foreign exchange reserves. The Mission pointed out first, that the bulk of external assistance has gone to the military establishment and the refugees and is not used for development of the indigenous economy, and secondly, that reserves had been accumulated partly as required cover for increased currency circulation, and partly as a cushion against the threat of a reduction in foreign assistance. It was pointed out by others, however, that perhaps the volume of currency in circulation did not necessarily reflect the requirements of the economy and that the use of a greater amount of foreign exchange for imports, particularly of investment goods, would not have reduced the volume of currency circulation below the essential minimum. The Mission agreed that continued accumulation of balances represented an uneconomic use for financial resources and - as had been mentioned in the report - that these ought to be mobilized at least in part.

The Committee questioned whether there was a lack of determination and enterprise in economic effort, reflected perhaps by the lags in implementing the planned level of investment expenditures and whether this did not cast doubts on how effective a use Jordan could make of IDA funds. The Mission replied that although the country could not be regarded in terms of economic viability, it had still managed to achieve some progress which might indicate a capacity to derive benefit from further assistance. It was suggested that the report might indicate this point more strongly.

The Committee felt that if assistance to Jordan were to be justified on grounds of the country's poverty, it should be borne in mind that a number of other countries in Asia and Africa had lower per capita incomes than the estimated \$ 150 for Jordan, and that IDA assistance of \$ 10 million (assuming this to be close to the minimum amount) would be equivalent to \$ 7 per capita and compare extremely favorably with the share of other possible recipient countries.

Other Points

In commenting on the proposals in the report for releasing resources for development in Jordan, the Committee agreed that encouraging tax reform measures and preventing further accumulation of cash balances were preferable to advocating changes in the country's monetary arrangements. It was also agreed that drawing down exhaustible sources of funds should take place gradually in order to avoid drastic curtailments of expenditures later.

The Committee suggested that the reference to the prospect for a long-term commitment of assistance from other aid-giving sources should emphasize its desirability, but acknowledge its uncertainty at the moment.

cc: Staff Loan Committee

Staff Economic Committee: Messrs. Rist, de Wilde, Hoffman, Adler, Alter, Avramovic, Gilmartin, Kamarck, Larsen, Sadove and Weigel.

In Attendance: Messrs. Brakel, Goodman, Thompson.

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STAFF LOAN COMMITTEE

February 6, 1961

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Minutes of Staff Loan Committee Meeting held on
Tuesday, January 31, 1961 at 3:00 p.m. in Room 1006

1. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. R. Cope
Mr. O. A. Schmidt
Mr. S. Aldewereld
Mr. A. Broches
Mr. R. W. Cavanaugh

Mr. A. Stevenson
Mr. I. P. M. Cargill
Mr. J. C. de Wilde
Mr. K. Iverson
Mr. G. M. Street, Secretary

In attendance:

Mr. M. M. Mendels *
Mr. M. L. Lejeune
Mr. W. Diamond
Mr. P. J. Squire
Mr. L. Nurick
Mr. G. M. Alter
Mr. D. Avramovic
Mr. K. A. Bohr

Mr. J. M. Croome
Mr. A. Geolot
Mr. J. C. Mehaffey
Mr. P. A. Reid
Mr. H. B. Ripman
Mr. R. Sadove
Mr. A. D. Spottswood
Mr. A. Wubnig

* Part only.

2. Revenue-Producing Projects

The Committee considered Memorandum SLC/O/61-1 (Rev.) on the Bank's policy on revenue-producing projects that organizations responsible for such projects should earn revenues sufficient to meet all their operating costs (including proper depreciation) and earn an adequate return on funds invested where adequate return is interpreted to mean a return comparable to the opportunity cost of **capital in the country concerned**; and

AGREED that

- (a) the policy was a sound guide for Bank and IDA operations, but deviations from it would be necessary;
- (b) experience suggested that the policy could be applied most readily in the power field;
- (c) the extent to which the policy could be followed in the agriculture and transport fields might be limited by various difficulties;
- (d) the Economic Staff should:
 - (i) make a study of the subsidization of projects in under-developed countries and the extent to which subsidies for these projects might be countenanced by the Bank;
 - (ii) compile such information as is available regarding the cost (marginal productivity) of capital in undeveloped countries;
- (e) the Bank's normal type of rate covenant should be reviewed in the light of the discussions.

3. The meeting adjourned at 5:00 p.m.