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ISAD Reference Code:	WB IBRD/IDA DEC-01-14
Digitized:	12/11/2023

Policy Review Committee: PRC/M/73-1/73-1a
73-3/73-3a

1973

Form No. 630
(4--73)

J.G.V.

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Revised
5/18/73

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

PRC/M/73-1

May 10, 1973

BANK LENDING FOR HIGHER INCOME COUNTRIES: STAFF COMMITTEE MEETING

The attached paper, which has been prepared by the Policy Planning and Program Review Department, will be discussed by a Staff Committee of the Policy Review Committee on Monday, May 21, 1973, at 3 p.m. in Conference Room B.

Pedro-Pablo Kuczynski
Secretary
Policy Review Committee

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IBRD LENDING TO HIGHER INCOME COUNTRIES

I. The Problem

1. This paper reviews past and prospective IBRD lending to countries with relatively high per capita GNP levels, analyzing such lending as a claimant upon IBRD resources. There are several reasons why such a review is appropriate:

- Lending to the higher income countries which are still considered eligible for Bank assistance has grown substantially: if the six largest borrowers in the period FY69-73 (Brazil, Colombia, Iran, Mexico, Turkey and Yugoslavia) are excluded, lending to the higher income group has grown as fast in relation to the previous five-year period as lending to the rest of lower income countries which receive Bank assistance.
- The available evidence suggests - contrary to expectations - that the staff input in higher income countries has been proportionately as high as in poorer and administratively less sophisticated countries, and has been especially heavy in agriculture and education, sectors where the needs of the poorer countries are very large.
- Several member governments have expressed concern about the level of Bank lending to countries in the higher income range and urged caution in such lending for the future.

2. Over the years, leaving aside the post-war reconstruction loans to a few European countries, Bank lending has been gradually phased out to a number of countries with high per capita incomes: Australia, Austria, Denmark, Italy, Japan, Norway and South Africa. In all these cases, the growth of incomes was

accompanied by increasing ease in obtaining capital requirements from commercial sources, on terms and conditions which the Bank considered reasonable. Thus, under Article III, Section 4(ii) of the Articles of Agreement, Bank assistance was no longer justified, since, in order to consider lending to a country, the Bank has to be satisfied, among other conditions, that "in the prevailing market condition the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower."

3. The question is whether these same criteria apply to the present group of high-income countries, and whether the gradual phase-out of new lending to the higher income countries now planned in the lending program for FY74-78 is consistent with the objectives of the Bank as a development institution.

II. The Higher Income Countries

4. For the purposes of this paper, higher income countries are those which had already reached a per capita GNP level in 1970 - as shown in the latest Bank Atlas of 1972 - of $1,000, or which can be reasonably expected to reach such a level in constant prices within the forthcoming five-year lending program period FY74-78. There are thirteen countries which fall within the definition and for which lending programs are contemplated.[1/] Of course,

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1/ The thirteen countries are: New Zealand, Iceland, Finland, Israel, Ireland, Argentina, Spain, Greece, Venezuela, Cyprus, Singapore, Trinidad & Tobago, and Uruguay. No lending is at present contemplated for Malta, but it is shown in Annex Table 1. Romania has been excluded since evidence collected by the recent Bank economic mission is expected to establish that GNP per capita is below the level shown in the 1972 Bank Atlas.

reaching the $1,000 per capita level does not mean that the country has become "developed",[1/] that it has ceased to rely on external borrowing to finance its further economic progress, or that its development efforts can be relaxed. Nevertheless, the countries which fall within the definition do in most cases share a number of features associated with their higher per capita GNP and level of development.

A. Level of Development

5. Annex Table 2 shows some of the key indicators of the structure of these economies. Their median GNP per capita in 1970 was $1,125. The stage of development which has been reached by these economies is correlated with the substantial contribution of manufacturing to the GNP - the median was 28.7 percent of GNP in 1966-70 -,the relatively low share of agriculture (even in those countries which still rely on agricultural products for a major share of their foreign exchange earnings), and rates of unemployment which are substantially below those in most developing countries. On the external side, most of the countries have in their balance of payments current account deficits which are relatively much smaller than the average for developing countries, a lower debt service ratio (the median was 4.2 percent in 1966-70), and international reserves which are in most cases significantly higher than in most developing countries. There is, of course, a wide diversity between the countries included in this analysis. For example, Argentina and Uruguay face serious balance of payments difficulties. Some of the economies could be

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1/ According to OECD/DAC definition, New Zealand, Iceland, Finland and Ireland are not counted as developing countries. The UN definition of developing countries also excludes Israel, Spain, Greece and Malta.

vulnerable because of some special feature: for example, Israel because of political reasons, or Venezuela because of its dependence on a rapidly depleting resource.

6. While the higher income countries exhibit a range of diversity in their economies, the quality of life for the bulk of their populations has already reached a level well beyond that in most developing countries. The comparisons in Annex Table 2 with the median of developing countries in the range of per capita GNP of $350 to $500 show this clearly for indicators such as infant mortality, the availability of physicians, nutrition standards, and educational statistics. More important, with their relatively low population growth rates, the higher income countries have good prospects to be able to continue to improve rapidly the living standards of their inhabitants.

B. Access to Financial Markets

7. There is a close correlation between the relative prosperity of a country and its ability to raise external loans from private sources. Whether these funds can be obtained at reasonable terms is of course the decisive element in whether or not Bank funds are justified for a particular country. For the higher income countries shown in Annex Table 2, a preponderance of financing from private sources in their external public debt is combined with a low debt service ratio. As of 1971, 74 percent of the external public debt of the higher income countries was owed to private sources (the median was 55 percent); the comparable proportions in the case of countries in the $350-500 per capita GNP range were 13 and 11 percent respectively. The fact that the high proportion of borrowing from private sources by the higher income countries in general has not been accompanied by a high debt service ratio is a reflection

not only of the small external borrowing requirements and of the conditions at which these funds are obtained, but also of the prudent borrowing policies of most of these countries. Whether these countries would be able to substitute additional private borrowing at a reasonable cost if the Bank were to phase out lending is of course a subjective judgment. For this very reason the Bank does not have rigid rules about the phasing out of lending. But for many of the countries in this group the growth of foreign issues in national bond markets and in the Euromarket as well as the recent growth of medium-term Euro lending and the easy availability of official and private export credits makes it difficult to believe that they would face unreasonable costs in borrowing from market sources.

III. The Scale of IBRD Operations in the Higher Income Countries

8. Although the share of lending to higher income countries has dropped by half in recent years, the volume of lending is substantial and growing. As shown in the table below in the five-year period FY69-73 just ending, the higher income countries received ~~15~~ 14 percent of total IBRD lending, an annual average of about ~~$256~~ $250 million. While this share represents a sharp decline from earlier periods, when lending to higher income countries accounted for about one-third of IBRD lending, the drop is accounted for by the ending of IBRD operations in a number of European countries, Australia, South Africa, and Japan. In those countries where the Bank remains active, lending rose from $439 million in FY59-63 to $795 million in FY64-68 with a further increase to ~~$1,278~~ $1,251 million in FY69-73. Of this last total, close to half is accounted for by lending to Spain and Argentina, with another quarter to Greece, Israel and Venezuela.

Table I: IBRD COMMITMENTS TO 'HIGHER INCOME' COUNTRIES a/

(US$ million)

		FY59-63	FY64-68	FY69-73	FY74-78
Active borrowers					
New Zealand	(2,700)	-	103	24	-
Iceland	(2,660)	2	18	4	6
Finland	(2,390)	87	70	75	20
Israel	(1,960)	75	35	105	150
Ireland	(1,360)	-	-	98	42
Argentina	(1,160)	144	70	319	350
Greece	(1,090)	-	13	~~122~~ 107	135
Spain	(1,020)	-	188	240	~~243~~ 220
Venezuela	(980)	45	202	114	~~244~~ 140
Cyprus	(950)	21	3	36	30
Singapore	(920)	15	58	~~52~~ 53	90
Trinidad & Tobago	(860)	24	14	~~40~~ 37	43
Uruguay	(820)	26	13	~~48~~ 39	65
Malta b/	(810)	-	8	-	-
Total		439	795	~~1,278~~ 1,251	~~1,418~~ 1,291
Past Borrowers c/		659	545	-	-
Total		1,098	1,340	~~1,278~~ 1,251	~~1,418~~ 1,291
Annual Average		219	268	~~256~~ 250	~~284~~ 258
Percent of IBRD lending					
active borrowers		14	19	~~15~~ 14	~~10~~ 9
past borrowers		20	12	-	-
Total		34	31	~~15~~ 14	~~10~~ 9

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a/ Countries ranked by per capita income level (shown in parentheses after each) according to 1972 World Bank Atlas.

b/ Shown in the table in case IBRD operations are resumed

c/ Australia, Austria, Denmark, Italy, Japan, Norway, and South Africa.

Note: For further detail see Annex Table I attached.

9. A number of features characterize the volume of lending to higher income countries:

a. It has not constituted a major burden on IBRD financial resources. This is so not only because of the Bank's general ability to borrow in the financial markets, but also because it is easier - if the need arises - to obtain funds through the sale of participations in the loans to some of these countries. Sales of participations on the loans made in the period FY69-73 to the thirteen countries mentioned above have accounted for 24 percent of total IBRD loan sales and participations during that period.

b. Operations in the higher income countries have absorbed a substantial proportion of staff time. Not only has the number of operations in these countries been as large as the volume of lending, but the preparatory work which has gone into the operations has been substantial. The average size of loans to the group was $21 million, or somewhat smaller than the average of ~~$24~~ $23 million for other countries, an average which is of course heavily influenced by a few large operations in Brazil and Mexico. Consequently, as shown in the table below, the share of operations in the higher income countries in FY69-73 was slightly higher - ~~16~~ 15 percent - than their ~~15~~ 14 percent share in the volume of lending. Contrary to expectations, the input of staff time into these operations

Table II: IBRD OPERATIONS IN HIGHER INCOME COUNTRIES a/

	FY64-68			FY69-73		
	No. of Operations	Average Size $ mil.	Share of Total Operations %	No. of Operations	Average Size $ mil.	Share of Total Operations %
Higher income countries	~~33~~ 34	~~24~~ 23	~~16~~ 17	~~63~~ 60	21	~~16~~ 15
Other IBRD	~~170~~ 169	21	~~84~~ 83	~~343~~ 331	~~24~~ 23	~~84~~ 85
Total IBRD	203	21	100	~~406~~ 391	~~24~~ 23	100

a/ Countries at present active, as shown in Table I.

does not appear to have been significantly lower than for operations in other poorer countries. In both FY71 and FY72, operations in the higher income countries absorbed between 8 percent and 9 percent of total available projects staff time/or about 15 percent of the total staff time spent on IDA and IBRD projects spent on IBRD projects. The input of country economic analysis has also been heavy: in the period FY71-73, 30 economic missions visited these countries, or 15 percent of Bank Group economic missions. Allowing for overhead and indirect inputs and the splitting of administrative expenses between IBRD and IDA, they account for 15 to 20 percent of the IBRD administrative budget.[1/]

Table III: PROJECT STAFF TIME SPENT ON LENDING TO HIGHER INCOME COUNTRIES [a/]

	FY71	FY72	First half FY73	Total
Preappraisal	9.7	8.7	2.4	7.6
Appraisal and Board	10.0	7.7	4.5	8.1
Supervision	6.7	8.3	8.4	7.8
Total	8.7	8.1	5.3	7.8

a/ Expressed as percent of project staff time spent on all countries.

c. The growth in lending to higher income countries has taken place largely for agriculture and education projects. Since these are sectors where the needs of the poorer countries are large and where the availability of staff is a constraint upon Bank Group operations, there is at least a reasonable presumption that lending for these sectors in the higher income countries has

1/ This calculation assumes that various overhead and administrative costs are shared over all operations. Obviously many such costs would not be significantly reduced as a result of ceasing operations in these particular countries, and the calculation therefore overstates potential savings.

restrained operations in other countries where the need was probably greater. As the table below shows, one-third of operations in the higher income countries were for agriculture and education in the period FY69-73. Of the operations in countries which had already reached a per capita GNP over $1,000 in 1970, Ireland received one loan for education and one for agriculture; Greece, two for education and one for agriculture; and Spain, two for agriculture and two for education.

Table IV: SECTOR DISTRIBUTION OF LENDING IN HIGHER INCOME COUNTRIES a/

(Number of operations)

	FY64-68	FY69-73	FY74-78
Power and water supply	17	15	4
Transportation	17	~~14~~ 13	8
Telecommunication	2	2	2
Industry and DFC	6	10	15
Total	42	41 40	29
Agriculture	3	~~13~~ 11	21
Education	-	8	9
Population	-	1	-
Total	3	~~22~~ 20	30
Unidentified	-	-	~~5~~ 7
Grand Total	45	~~63~~ 60	~~64~~ 66

a/ Including past borrowers in FY64-68.

10. As far as future lending to the high income countries is concerned, the existing lending programs show a small increase from ~~$1,278~~ $1,251 million of lending in FY69-73 to ~~$1,418~~ $1,311 million in FY74-78, so that the share of the higher income countries in total IBRD lending will decline from ~~15~~ 14 to ~~10~~ 9 percent in the respective periods. Perhaps a more relevant measure of Bank involvement in

the higher income countries is the trend in the amount outstanding, including undisbursed: this is projected to increase in absolute terms from $2.2 billion at the end of FY73 to $3 billion at the end of FY78. On the other hand, the outstanding would decline as a proportion of the Bank total from 15.2 percent to 12 percent respectively. The number of operations in the higher countries is expected to remain at about its current level, thus accounting for about 11 percent of total IBRD operations. The continued decline in the share of higher income countries in total IBRD lending reflects the phasing out of operations in New Zealand, Finland, Iceland and Ireland. The last operations in these countries will total less than $70 million and two of these countries will be making net repayments to the Bank. There is however a further group of countries comprising Israel, Greece, Spain, Cyprus and Singapore, where commitments are expected to amount to about ~~$650~~ $625 million over FY74-78 but where the justification for Bank lending is expected to diminish. It is countries in this group which might be regarded as the next where lending could be phased out.

Table V: LENDING TO HIGHER INCOME COUNTRIES, FY74-78

A. Countries with Phase Out Programs	Outstanding end FY73 a/	Commitments FY74-78	Repayments FY74-78	Outstanding end FY78 a/
New Zealand	98	-	45	53
Finland	155	20	87	88
Iceland	25	6	5	26
Ireland	98	42	12	128
Total	376	68	149	295
B. Countries with Diminishing Need for Bank Financing				
Israel	170	150	58	262
Greece	129	135	33	231
Spain	408	~~243~~ 220	93	~~558~~ 535
Cyprus	49	30	10	69
Singapore	118	90	31	177
Total	874	~~648~~ 625	225	~~1,297~~
C. Others				
Argentina	479	350	92	737
Venezuela	317	~~244~~ 140	98	~~463~~ 359
Trinidad & Tobago	68	43	11	100
Uruguay	88	65	37	116
Total	952	~~702~~ 598	238	1,416
Total A, B & C	2,202	1,418	612	~~3,008~~

a/ Including undisbursed.

IV. Pros and Cons of Lending to Higher Income Countries

11. The reasons for lending to countries within the higher income range are of course based on an assessment of the economic situation and capital requirements of each individual country. Each country has special features which distinguish it from others within the higher income range. Nevertheless, there are a number of features in the rationale for lending which are common to several or most of these countries.

12. Among these considerations are the following:

a. The Bank can be a lender of last resort for countries with special political or geographic problems which inhibit their access to market sources of finance (Cyprus, Finland and Iceland) or with special adjustment problems which have increasedtheir need for long-term development finance (Ireland).

b. The Bank can play a role in helping to reconstruct economies depleted by years of political problems and economic mismanagement (Argentina and Uruguay are possible examples). Part of this role includes improving the profile of external debts with excessively short average maturities. Clearly, such a role can only be played if the government concerned is undertaking a major effort in the same direction.

c. For a number of higher income countries the objective of IBRD lending is to achieve reform or the strengthening of institutions in strategic sectors where neglect would be detrimental to the country's long-term development. Lending to agriculture and education in Spain or to export sectors in Argentina are examples of this kind.

13. A more general consideration is the effect upon Bank and IDA finances of a continuing relationship with the higher income countries. First, it is possible that the attractiveness of Bank bonds to investors is enhanced by the relatively high share in the Bank portfolio of loans to countries with a high degree of creditworthiness. As of the end of FY72, 26 percent of the IBRD portfolio - loans disbursed and outstanding net of sales and participations - was in higher income countries, including past borrowers. Second, and more important, borrowers are likely to become contributors to IDA in the future. While the Bank has carefully avoided giving higher income borrowers the impression that a direct link exists between present Bank lending and the expectation of future borrowing by the Bank or contributions to IDA, nevertheless it is probably true that the continuation of some lending to higher income countries will increase their disposition to become lenders and contributors. Of the higher income countries which are active borrowers from IBRD, Finland is a full Part I member of IDA and Iceland became a Part I member for the Third Replenishment. New Zealand has made a special contribution to IDA and may become a Part I member for the Fourth Replenishment. Ireland and Spain made special contributions to the Third Replenishment and may do so again for the Fourth Replenishment. Israel may possibly make a special contribution to the Fourth Replenishment and there is a more remote possibility that Greece can also be persuaded to do so. On the other hand, Venezuela, Singapore, Uruguay, and Malta are not members of IDA. Argentina has not made a special

contribution to IDA or released the 90 percent portion of its subscription to IDA in convertible currencies. Cyprus and Trinidad and Tobago have also made no releases from their subscriptions.

14. Nevertheless, there are some important considerations suggesting reduced lending to higher income countries. They are:

a. The lending program will still require a substantial proportion of IBRD staff resources, particularly in sectors of special importance to the poorer countries. Moreover, as shown above, the lending programs for the higher income countries for the period FY74-78 emphasize - agriculture and education - sectors where the needs of developing countries are greatest and in which manpower constraints are especially relevant. Agriculture will account for one-third of the operations so far identified. Education will also continue to be important.

b. It would seem desirable to have a somewhat greater emphasis on poorer IBRD clients over FY74-78 than was achieved in FY69-73. Almost 60 percent of the increase in Bank lending in FY69-73 was concentrated on six countries: Turkey, Colombia, Iran, Brazil, Yugoslavia and Mexico. Excluding IBRD lending to India and Pakistan, which reflected special factors, the increase in IBRD lending to the remaining developing countries was little different from the increase in lending to the higher income countries.

Table VI: PATTERN OF IBRD EXPANDED LENDING FY69-73

	FY64-68		FY69-73		% Increase
	$ mil.	% Share	$ mil.	% Share	FY69-73
The largest six borrowers a/	1,148	27	3,915	~~43~~ 44	241
Higher income countries	795	19	~~1,333~~ 1251	~~15~~ 14	~~68~~ 57
India/Pakistan	325	8	~~364~~ 356	~~4~~ 4	~~12~~ 10
Other	2,028	47	~~3,465~~ 3344	~~38~~ 38	71 65
Total IBRD borrowers	4,296	100	~~9,077~~ 8,866	100	~~111~~ 106

a/ In FY69-73

V. Possible Policies

15. There are evident difficulties in striking a balance between these various considerations. Despite the fact that a criterion of $1,000 GNP per capita has been used for the foregoing analysis, it is clear that no operational policy could be formulated which depends exclusively on such a yardstick. The Articles of Agreement predicate the eligibility of countries, among other things, on their access to external finance at reasonable terms, and not on their level of income, although, as was noted in para. 5, there is a high degree of correlation between the two measures. Therefore, the need of particular higher income countries for Bank assistance will necessarily continue to be based on the economic evaluation of each individual country. Another course of action, based on a uniform yardstick such as per capita income, would inevitably arouse a strong reaction not only from today's higher income countries (including a number of European countries, Argentina and Venezuela), but from others (such as Brazil, Mexico and Yugoslavia) who would feel potentially affected by such a policy. Therefore, the circumstances of each country have to be analyzed carefully, although it is no doubt desirable - as a general principle - for the Bank to limit staff involvement in most or at least several of the higher income countries. Various possible policies are analyzed below. These possibilities include a higher rate of interest and/or shorter maturities for these borrowers, a limit on the amount of lending, changes in lending techniques and streamlining of staff deployment for work on these countries. These policies are not mutually exclusive, and can be taken individually or as a package.

16. Interest rate and maturity policy. One possible way for the Bank to reduce its operations in higher income countries would be to discourage demand

for assistance by charging a higher interest rate on loans to them. Since the standard IBRD lending rate is usually below the cost of alternative sources of external finance, a higher rate would reduce or remove an incentive to borrow from IBRD. To the extent that the higher rate failed to reduce the demand for Bank lending, the extra income to the Bank would at least cover much of the charge which lending to higher income countries represents on the IBRD budget.[1/] However, since the purpose of the higher rate would be to discourage borrowing, the financial advantages for the Bank should not be a consideration in favor of such a policy.

17. Such a policy was in effect between 1965-67 when a group of "market eligible" countries[2/] were charged rates up to one percent higher than the standard IBRD lending rate (then between 5.5 percent to 6.0 percent). A "market eligible" country was defined as one, "which normally covers a substantial part of its external needs by borrowing on the capital markets of the world." The policy was terminated in 1967, after Italy, Japan and South Africa had ceased to be claimants for new loans from the Bank.

18. Another possibility, which could be combined with a higher interest, is that of shorter maturities for loans to higher income countries. As is shown in the table below, the average maturity of Bank lending to the higher income countries was not much different from the average for other Bank borrowers.

1/ The effect on IBRD income comprises both the increase in income from loans and the decrease in interest on borrowings. Assuming that IBRD started as of FY74 to lend 10 percent of its total loans at a rate one percent above the standard rate, then by FY83 IBRD income would be $21 million higher than if all lending continued at the standard rate. This would be equivalent to 7 percent of total estimated income in FY83 and would cover [13] percent of projected IBRD budget expenses in that year. The increases in income would of course be lower depending on how it affected demand for loans from the Bank.

2/ The seven loans on which the higher rates applied were to Japan, New Zealand, Italy and South Africa.

Table VII: AVERAGE TERMS[a] OF IBRD LENDING

	Higher Income Countries		
	Amortization Period Years	Grace Included Years	Rate of Interest Percent
FY69	22	5	6.5
FY70	18	3	7.0
FY71	21[b]	4	7.25
FY72	17	4	7.25
Average	20	4	7.0

a/ Weighted by the volume of lending.
b/ Average maturities in this year were influenced by two large loans to Argentina.

19. There are a number of difficulties with altering financial terms to higher income borrowers. First, it is an indirect approach, the effects of which cannot be predicted: since it attacks the demand for funds - the availability of which is not the major constraint - it may well be that the size of operations will be reduced, but that the staff input - the key variable - will not diminish much. Second, some general yardstick or starting point would have to be established for countries subject to the policy: unless the number of countries affected is very small (for example, those for which new lending will in any case be phased out in FY74-78), there is likely to be a strong adverse reaction to the policy. This reaction could well endanger proposals from an SDR Link or a Third Window by strengthening the opposition of a few large Latin American countries. Finally, the establishment of one differential interest rate could conceivably create pressures for other differential rates below the standard lending rate: however, this is unlikely to be a major consideration. An offsetting factor, again not of great significance, would be the addditional income to the Bank - estimated above - arising from a special lending rate to the higher income countries.

20. <u>Quantitative limits on lending</u>. One possible course of action for IBRD would be to set a quantitative ceiling on the amount of lending to higher income countries as a group. For example, maintaining lending of about $250 million a year to the higher income countries - a continuation in absolute unadjusted monetary amounts of the present scale of lending - would mean that they would account for 8 percent of total IBRD lending in FY74-78 against the 10 percent currently planned. This objective would require extending "phase out" programs to other higher income countries besides Finland, Iceland, Ireland and New Zealand. The countries which would appear to be candidates for such a phase out were indicated in Table V above to be Israel, Greece, Spain, Cyprus and Singapore. A termination of lending in some or all of these countries by FY78 might be contemplated or at least a scaling down of commitments so that net lending (after taking account of repayments) would not increase. While reducing net lending to some of the higher income countries would be one way of saving on staff resources, this approach is open to the criticism that since the constraint on IBRD lending is not so much the volume of assistance that can be made available, it would be more appropriate to limit staff input rather than limit the volume of assistance. Thus while a few countries may be candidates for scaled-down lending, the main emphasis should be on seeking ways to economize on staff time.

21. <u>Economizing staff</u>. The major claim on Bank resources imposed by lending to the high-income countries consists of scarce manpower which has alternative uses. Conflicting demands for this staff are likely to emerge as Bank operations increase in the poorer countries and overall budgetary constraints develop. In devising policy options, therefore, it is necessary to find ways and means of economizing staff time devoted to these countries.

22. The following proposals should be considered in order to reduce the input of scarce manpower in the high-income countries.

a. The economic work on the high-income countries should be kept to the minimum necessary to sustain Bank operations. It is illogical to have similar institutional arrangements for economic and sector missions to these countries as to the poorer members of the Bank. Knowledge about many of these countries can be acquired by using the reporting system of the IMF or OECD. Since most of these countries happen to be in the EMENA region, it may also be more economical to handle operations to them through a small cell within the region rather than through the present arrangements. Therefore it would seem appropriate to reduce the economic work program by eliminating any basic reports for these countries, mounting economic missions infrequently - say only once every four years and deriving updating report mainly from other sources.

b. In terms of the sectoral composition of lending to the higher income countries,there is a dilemma. On the one hand, lending to priority sectors and for "socially significant" projects in agriculture, education, etc., entails that the claim on IBRD staff is exactly in those areas where manpower is already scarce. On the other hand, it would not be reasonable for IBRD to lend only to traditional sectors such as power and transportation if these are not the areas where IBRD can best contribute to the country's development prospects. There is the added consideration that it is for projects in traditional sectors (for example, power projects) where market sources of finance, including official export credits, are most readily available. Lending for sector programs might be one way of economizing on staff time while retaining an impact on institutional reforms in a country. If however staff time cannot be reduced in this way, this would provide a powerful argument for a faster phase out of operations in the higher income countries.

c. It would also be appropriate to treat our lending to the higher income countries on an ad hoc basis rather than to establish regular five-year lending programs for them. Lending to these countries is meant to be for specialized needs and for temporary periods, with the Bank acting as a lender of last resort. It is unnecessary to go through the same procedures in establishing five-year programs and country and sector mission schedules for these countries as is done in the case of other countries. Annual country program papers should not be prepared for individual countries but an allowance made in staff allocations to support a program for the higher income countries as a group, in line with Management's decision on the pace of future operations.

23. Conclusions. The major conclusions which arise from the foregoing analysis can be summarized in the following points:

a. Bank lending to higher income countries decreased between FY64-68 and FY69-73 and, in relation to total Bank lending, is planned to decline substantially during FY74-78;

b. The critical policy choices lie in the area of the allocation of the scarce manpower resources of the Bank and in lending techniques. An effort is being made currently to devise lending techniques and staff arrangements which would make minimum use of our staff time in lending to the high-income countries; and

c. The ultimate objective of the Bank is to phase out its lending in most of the countries above $1,000 per capita income by 1980. Steps already being taken in this direction could be accelerated if phase out programs were extended to additional countries in the FY74-78 period.

Table 1: IBRD LENDING TO HIGHER INCOME COUNTRIES, FY59-78 1/

(Amounts $ million and no. of operations)

	Per Capita Income			1959		1960		1961		1962		1963		1964		1965		1966		1967		1968		1959-63		1964-68	
	1960	1965	1970	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.
Denmark	2,190	2,710	3,190	20	1	-	-	-	-	-	-	-	-	25	1	-	-	-	-	-	-	-	-	20	1	25	1
Norway	1,920	2,400	2,860	-	-	20	1	25	1	-	-	-	-	25	1	-	-	-	-	-	-	-	-	45	2	25	1
Australia	2,690	2,440	2,820	-	-	-	-	-	-	100	1	-	-	-	-	-	-	-	-	-	-	-	-	100	1	-	-
New Zealand	2,210	2,520	2,700	-	-	-	-	-	-	-	-	-	-	40	2	-	-	63	2	-	-	-	-	-	-	103	4
Iceland	1,650	2,130	2,660	-	-	-	-	-	-	2	1	-	-	-	-	-	-	-	-	18	1	-	-	2	1	18	1
Finland	1,540	1,900	2,390	37	1	-	-	-	-	25	1	25	1	7	1	43	2	20	1	-	-	-	-	87	3	70	4
Austria	1,350	1,600	2,101	25	1	9	1	-	-	5	1	-	-	-	-	-	-	-	-	-	-	-	-	39	3	-	-
Israel	1,200	1,600	1,960	-	-	-	-	28	1	25	1	22	1	-	-	-	-	20	1	-	-	15	1	75	3	35	2
Japan	750	1,150	1,920	104	5	84	3	105	4	40	1	-	-	125	2	125	3	25	1	100	1	-	-	333	13	375	7
Italy	1,100	1,370	1,760	20	1	40	1	-	-	-	-	-	-	-	-	100	1	-	-	-	-	-	-	60	2	100	1
Ireland	960	1,140	1,360	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Argentina	910	1,040	1,160	-	-	-	-	49	1	95	1	-	-	-	-	-	-	-	-	-	-	70	2	144	2	70	2
Greece	570	810	1,090	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	1	-	-	13	1
Spain	550	790	1,020	-	-	-	-	-	-	-	-	-	-	33	1	65	1	40	1	-	-	50	1	-	-	188	4
Venezuela	780	930	980	-	-	-	-	-	-	45	1	-	-	85	1	44	2	58	2	15	1	-	-	45	1	202	6
Cyprus	530	640	950	-	-	-	-	-	-	-	-	21	1	-	-	-	-	-	-	3	1	-	-	21	1	3	1
Romania	450	570	930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Singapore	530	630	920	-	-	-	-	-	-	-	-	15	1	-	-	7	1	-	-	25	2	26	2	15	1	58	5
Trinidad & Tobago	710	770	860	-	-	-	-	-	-	24	1	-	-	-	-	-	-	-	-	14	2	-	-	24	1	14	2
Uruguay	820	790	820	-	-	7	1	-	-	-	-	19	1	-	-	13	1	-	-	-	-	-	-	26	2	13	1
Malta	410	450	810	-	-	-	-	-	-	-	-	-	-	8	1	-	-	-	-	-	-	-	-	-	-	8	1
South Africa	580	680	760	37	2	-	-	-	-	25	2	-	-	-	-	-	-	-	-	20	1	-	-	62	4	20	1
Total				243	11	160	7	207	7	386	11	102	5	348	10	397	11	226	8	195	9	174	7	1,098	41	1,340	45
Percent IBRD				35	37	24	23	34	26	47	38	23	18	43	27	39	28	27	22	25	20	21	16	34	28	31	22
Past borrowers 2/				206	10	153	6	130	5	170	5	0	0	175	4	225	4	25	1	120	2	0	0	659	26	545	11
Total excl. past borrowers				37	1	7	1	77	2	216	6	102	5	173	6	172	7	201	7	75	7	174	7	439	15	795	34
Percent IBRD				5	3	1	3	13	7	26	21	23	18	21	16	17	18	24	19	10	15	21	16	14	10	19	17
Memo: Total IBRD				703	30	659	31	610	27	822	29	449	28	810	37	1,023	39	839	37	777	46	847	44	3,243	145	4,296	203

	Per Capita Income			1969		1970		1971		1972		1973		1974		1975		1976		1977		1978		1969-73		1974-78	
	1960	1965	1970	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.
Denmark	2,190	2,710	3,190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Norway	1,920	2,400	2,860	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Australia	2,690	2,440	2,820	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New Zealand	2,210	2,520	2,700	-	-	-	-	16	1	8	1	-	-	-	-	-	-	-	-	-	-	-	-	24	2	-	-
Iceland	1,650	2,130	2,660	-	-	-	-	4	1	-	-	-	-	6	1	-	-	-	-	-	-	-	-	4	1	6	1
Finland	1,540	1,900	2,390	22	1	-	-	33	2	-	-	20	1	20	1	-	-	-	-	-	-	-	-	75	4	20	1
Austria	1,350	1,600	2,101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Israel	1,200	1,600	1,960	-	-	25	1	20	1	30	1	30	1	30	1	30	1	30	1	30	1	30	1	105	4	150	5
Japan	750	1,150	1,920	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Italy	1,100	1,370	1,760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	960	1,140	1,360	15	1	-	-	30	2	28	2	25	1	27	2	15	1	-	-	-	-	-	-	98	6	42	3
Argentina	910	1,040	1,160	107	2	60	1	152	2	-	-	-	-	110	2	60	1	60	1	60	1	60	1	319	5	350	6
Greece	570	810	1,090	-	-	20	1	39	2	25	1	~~38~~ 23	~~2~~ 1	30	2	30	2	30	2	25	2	20	2	~~122~~ 107	~~6~~ 5	135	10
Spain	550	790	1,020	-	-	37	2	103	2	50	1	50	1	60	2	~~88~~ 80	2	~~95~~ 80	1	-	-	-	-	240	6	~~243~~ 220	5
Venezuela	780	930	980	51	2	-	-	35	1	28	2	-	-	~~86~~ 15	~~3~~ 1	~~33~~ 50	~~1~~ 3	~~36~~ 25	1	~~42~~ 25	~~1~~ 2	~~47~~ 25	1	114	5	~~244~~ 140	~~7~~ 8
Cyprus	530	640	950	12	1	5	1	5	2	12	2	2	1	10	2	9	1	4	1	3	1	4	1	36	7	30	6
Singapore	530	630	920	27	2	16	2	-	-	10	1	-	-	20	2	25	1	-	-	20	2	25	1	53	5	90	6
Trinidad & Tobago	710	770	860	11	2	-	-	3	1	2	1	~~24~~ 21	~~1~~ 2	4	1	15	2	5	1	10	1	9	2	~~40~~ 37	~~7~~ 6	43	7
Uruguay	820	790	820	-	-	6	1	22	2	11	1	~~9~~	~~1~~	10	1	15	2	10	1	20	2	10	1	~~48~~ 39	~~5~~ 4	65	7
Malta	410	450	810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Africa	580	680	760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total				245	11	169	9	462	19	204	13	~~198~~ 171	~~11~~ 8	~~413~~ 342	~~20~~ 18	~~320~~ 329	~~14~~ 16	~~270~~ 244	19	~~210~~ 193	11	~~205~~ 183	11	~~1,278~~ 1251	~~63~~ 60	~~1,418~~ 1291	~~64~~ 65
Percent IBRD				18	13	11	13	24	24	10	18	~~10~~ 9	~~14~~ 10	~~19~~ 16	~~20~~ 18	13	~~13~~ 15	10	8	~~7~~ 6	8	~~6~~ 5	~~7~~ 8	~~15~~ 14	~~16~~ 15	~~10~~ 9	11
Memo: Total IBRD 3/				1,399	82	1,580	69	1,921	78	1,966	72	~~1,900~~ 2,000	~~90~~ 82	2,150	100	2,450	105	2,750	120	3,100	130	3,500	135	8,766 8,866	391	13,950	590

1/ The countries included in this table as 'higher income' countries are those which either had already attained a per capita income level of $1000 in 1970 (according to the World Bank Atlas) or can be expected to reach that level by FY78.

2/ Countries to which lending had ceased by FY69 - Denmark, Norway, Australia, Austria, Japan, Italy and South Africa.

3/ Figures for FY74-78 for total IBRD are consistent with IBRD financial projection assumptions.

Policy Planning & Program Review Department
March 14, 1973

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

PRC/M/73-1a

June 11, 1973

MINUTES OF STAFF COMMITTEE MEETING ON BANK LENDING TO HIGHER INCOME COUNTRIES

Attendance: Messrs. Stern (Chairman), Haq, Hayes, Rotberg, van der Tak, Votaw, Blaxall, Avramovic, Karaosmanoglu, Bart, Helmers, Dosik, Kuczynski (Secretary), Vibert.

1. This note summarizes the main points discussed at the staff review meeting on May 21, 1973 of the paper on Bank Lending to Higher Income Countries prepared by the Policy Planning and Program Review Department.

The Analysis

(i) Access to Markets.

2. The point was made that Article III, Section 4(ii) of IBRD's articles on the subject of IBRD lending to countries with market access provided a somewhat imprecise guide for Bank policy, particularly with the rapid growth of medium-term Euro lending by banks, a development which had opened international sources of capital to a wide range of developing countries. Further information should therefore be given in the paper on the terms and conditions of recent borrowings by the higher income countries.

(ii) Countries with Diminishing Need for Bank Financing.

3. The reasons underlying the chosen five countries singled out as facing a diminishing need for Bank financing were questioned; it was suggested that the judgments on these countries be made more explicit.

(iii) Manpower/Budget Aspects.

4. It was questioned whether the manpower and proportion of budget absorbed by operations in the higher income countries should be regarded as significant in terms of administrative costs apportioned to IBRD alone; it might be more appropriate to consider the manpower implications of lending to high-income countries in relation to IBRD/IDA as a whole.

Policy Options

5. The Committee felt that the above suggested improvements in the analysis would permit a clearer presentation of the options. It was also noted that the relatively large volume of lending to high-income countries was concentrated in a few countries and that, therefore, the question of lending to higher income countries really boiled down to decisions about a limited number of countries. The Director of the Country Programs Department responsible for Spain noted that his department was considering proposing to Management a very sharp reduction in lending to that country in comparison with the lending program previously approved by Management. The Committee thought that two policy options should be examined somewhat more in the revised version of the paper:

(i) Maintaining the present approach: one option might be to continue the present policy, without a change in the present approach.

(ii) Interest rate policy: it was suggested that not enough emphasis was given to the possibility of charging a rate above the standard one to higher income countries or other ways of charging for the direct administrative costs of lending (such as a proportion, say one percent, of the principal amount of the loan). It was also noted, however, that the paper quantified the likely effect of such a policy upon IBRD finances, which would be small on the basis of projected lending to the higher income countries, and that the setting up of differential changes would create an invidious precedent.

Cleared with: Mr. Stern

cc: Policy Review Committee Members

Those listed above

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

PRC/C/73-2

June 13, 1973

DRAFT POLICY PAPER ON RETROACTIVE FINANCING

1. The attached draft paper is being circulated for your information and comments. The paper has been prepared in response to a request made by the Board and is due to be discussed by it on July 10, 1973. The draft incorporates comments received from various concerned departments.

2. The paper has been submitted to Mr. McNamara for his approval. Since no major policy issues are involved, a formal review by the Policy Review Committee is not planned.

Mahbub ul Haq
Director
Policy Planning &
Program Review Department

DISTRIBUTION

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FINAL DRAFT
BVaron/PPKuczynski/rso
June 13, 1973

RETROACTIVE FINANCING

1. This paper is divided into two parts: the main text summarizes the findings of a review of past experience with retroactive financing and suggests some policy conclusions; the Annex provides more detailed background material on past experience.

Background and Major Findings

2. Retroactive financing refers to the financing through a loan or credit of project expenditures made before the actual signature of the loan or credit agreement. Retroactive financing is generally viewed together with advance contracting, since contracts entered into before the signature of the loan or credit often - but not necessarily - lead to requests for retroactive financing. The subject of advance contracting and retroactive financing was reviewed by the Executive Directors in two sessions in March and April 1968, on the basis of a paper on "Timing of Invitation to Bids and Awards of Contracts".1/ The analysis in that paper, which was based on an examination of the 127 loans and credits, excluding those to financial intermediaries, made in calendar years 1965, 1966 and 1967, showed that a relatively high proportion - 41 percent - of these projects included contracts on which bidding had taken place before the approval of the loan or credit by the Board. The consensus in the Board was that the Bank should be reluctant to encourage countries to take action which commits them to the expenditure of funds before approval of a loan or credit. Moreover, the Board should be given advance indication of invitations to bids

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1/ Sec.M. 68-57, March 6, 1968.

ing in this category, and of any expenditures being undertaken on the understanding that they would subsequently be eligible for retroactive financing. This has been done through the Monthly Operational Summary.

3. Since 1968, the issue of retroactive [illegible] occasion by the Executive Directors; most recently in the discussion of the "Review of Disbursements" on September 12, 1972, during which a number of Executive Directors said that they hoped that the Bank and IDA would liberalize their policy on retroactive financing as a contribution towards accelerating disbursements. In concluding the review, the Chairman said that the staff would prepare a study of retroactive financing for review by the Executive Directors.

4. Retroactive financing has been a frequent though far from universal feature of Bank and IDA lending. While not all contracts entered into by a prospective borrower prior to the signature of a loan lead to expenditures in the interval before Board approval, all retroactive financing does result from the awarding of contracts prior to the signature of loans or credits, so that both subjects - advance contracting and retroactive financing - are dealt with here.

5. The policy for retroactive financing is stated in Operational Policy Memorandum No. 2.41 on "Advance Contracting" of March 31, 1971,[1/] a copy of which is attached. The policy outlined in the Memorandum is that it is in general undesirable for the Bank to become involved in a project if it is likely that, prior to Board consideration, a substantial amount of construction work is likely to have been carried out, or a large amount of the equipment needed is likely to have been ordered, on the grounds that such projects (a) raise the question of the need for Bank financing at all, and (b) might create the

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1/ This replaced the operational memorandum on the same subject (No. 5.06) issued on May 31, 1970. The differences between the two versions are minor.

impression that approval by the Board is a mere formality. The policy recognizes, however, that there can be a justification for advance contracting and for Bank and IDA financial assistance for it, depending on the nature of the project and the proportion of it financed by the Bank or IDA. The Memorandum stresses that each case will have to be considered on its own merits; important elements in arriving at a decision will be the proportion of advance contracts to be financed out of total project costs - the Bank and IDA will not normally finance retroactively more than a small proportion of project costs - and the extent to which these items were already known at the time the Bank or IDA became involved with the project - so that contracts signed during or after appraisal are more likely to be included than those signed before then.

6. The present paper is based on a review of the 559 Bank and IDA projects approved in the period FY68-72. While detailed data have not been worked out for projects prior to this period, the sample prepared for the "Review of Disbursements", ~~2/~~ 1/ which covers the period FY48 to FY70, provides some information on the earlier period. The Annex provides details on the FY68-72 period.

7. The principal findings are the following:

(a) ~~With the exception of a few sector loans,~~ Retroactive financing in the period FY68-72 has been a small proportion of Bank and IDA lending. In that period, roughly one-fourth of Bank/IDA projects included provision for retroactive financing; this compares with a ratio of 46.5 percent in the previous five years - a period of relatively high retroactive financing - and 20 to 25 percent in

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~~1/ Including 13 loans and credits approved in FY72 but not signed by June 30, 1972.~~

1/ ~~2/~~ R 72-205, dated August 21, 1972, discussed by the Executive Directors on September 12, 1972.

the fifteen years before that. The expenditures financed retroactively in FY68-72 came to approximately $95 million,[1/] less than $20 million per annum, or 3.7 percent of Bank loans and IDA credits with retroactive financing, and 0.9 percent of total Bank and IDA lending. Furthermore, the share of project expenditures covered by retroactive financing declined from 8.6 percent in FY68 to 2.5 percent in FY72.

(b) With few exceptions, the amount of retroactive financing per project has been small and the time before Board approval covered by such financing has been rather short. In over two-thirds of the cases the expenditures involved were under $500,000 and in nearly four-fifths of them the time span involved was under nine months, i.e., less than the average time which elapses between the departure of appraisal missions and Board presentation.

(c) The distribution of the retroactively financed expenditures by purpose was consistent with the illustrations of the most common cases given in the Operational Policy Memorandum on "Advance Contracting", i.e. the hiring of consultants and the purchase of equipment being the dominant categories.

(d) In terms of sectoral distribution, the sectors where retroactive financing was most frequent were water supply, transportation, and electric power, in that order. Sector rather than country characteristics seem to have been the major determinants of retroactive financing.

1/ This figure is heavily influenced by the inclusion of $30 million for retroactive financing of equipment expenditures in two power loans to Mexico in 1968 and 1970.

8. The justification for retroactive financing can vary according to the nature of the expenditures to be financed. The two principal types of expenditures covered by retroactive financing are:

(a) Preinvestment work. Expenditures for consultants have accounted for 41 percent of the amount of retroactive financing in the period FY68-72, and for 61 percent of the number of cases of retroactive financing. The Bank and IDA have exhibited considerable flexibility in the use of retroactive financing to cover preinvestment work. In general, large feasibility studies have been considered by the United Nations Development Programme (UNDP), so that there has been infrequent need for the Bank and IDA to cover retroactively expenditures on such studies. Smaller feasibility studies and detailed engineering work have often been financed retroactively, especially when the prompt completion of preinvestment work was important for the expeditious handling of a project or program.

(b) Equipment. Expenditures for equipment accounted for 49 percent of the amount of retroactive financing in the period FY68-72 (but see footnote on previous page). The remaining 10 percent was accounted for by expenditures for civil works and miscellaneous purposes.

9. In general, the Bank and IDA have been willing to consider retroactive financing as long as the project was not so far advanced that the justification for Bank or IDA financing was called into question or that serious limitations arose upon the capacity of the Bank or IDA to influence the direction of the project as a result of appraisal and negotiation ~~(and as long as the risk to the borrower of suffering large losses in the event that the loan or credit is not approved was not unreasonably high~~). No specific percentage of project expenditures has been set as the limit for retroactive financing, since the application of the criteria above does not vary necessarily in proportion to project expenditures already

incurred. Cases where retroactive financing is likely to be appropriate include preliminary physical work - such as access roads and houses for workers - seasonal work which, unless undertaken at a particular time of the year, could delay the start of a project by a year or more; ongoing activities where significant economies are possible, such as cases where a contractor is already on site or where equipment must be ordered within a certain time in order to take advantage of options granted under previous orders; and, in cases where alternative sources of finances may not be available or suitable, investment programs (such as in railways or electric power) in which there is continuous contracting.

10. Clearly, there must be safeguards in the consideration of cases for retroactive financing. The safeguards applied in the past have been:

(a) To specifically advise the prospective borrower - and the Government if the borrower is a separate entity - of the risk of advance contracting and expenditure undertaken on the basis of possible future retroactive financing by the Bank or IDA, in order to ensure that the prospective borrower understands that his actions do not commit the Bank or IDA to make financing available.

(b) To advise the Executive Directors through the Operational Summary of the cases where retroactive financing is being contemplated and to include in President's Reports a statement regarding any retroactive financing proposed in a particular project.

(c) To ensure that contracts to be considered for retroactive financing meet the procurement standards of the Bank and IDA. This means that for the procurement of goods and services (other than consultant services) the procedures in the Procurement Guidelines should be followed, and that the Bank or IDA should have the opportunity to review the specifications, invitations to bid and evaluation of bids.

11. ~~10~~. The nature of retroactive financing, which depends on the special circumstances and problems of particular projects, makes it difficult to arrive at general conclusions on the subject. Nevertheless, the analysis permits the following generalizations:

(a) The policy on advance contracting and the financing of retroactive expenditures laid down in Operational Policy Memorandum 2.41 is consistent with the role of the Bank as a development institution. This role includes playing a major part in formulating a project or program before a significant proportion of it is financed. The analysis of retroactive financing shows that the particular cases of retroactive financing have been consistent with the general policy. No changes in the policy or in its application are called for; but it should be recognized that the successful application of the policy requires reasonable flexibility.

(b) In order to keep the Executive Directors fully informed about developments in this field, it is proposed to continue reporting through the Operational Summary and including in the President's Reports a statement regarding any expenditures undertaken in the expectation of retroactive financing.

Policy Planning and Program Review Department
June 21, 1973

A Quantitative Analysis of Retroactive Financing

A. Principal Magnitudes

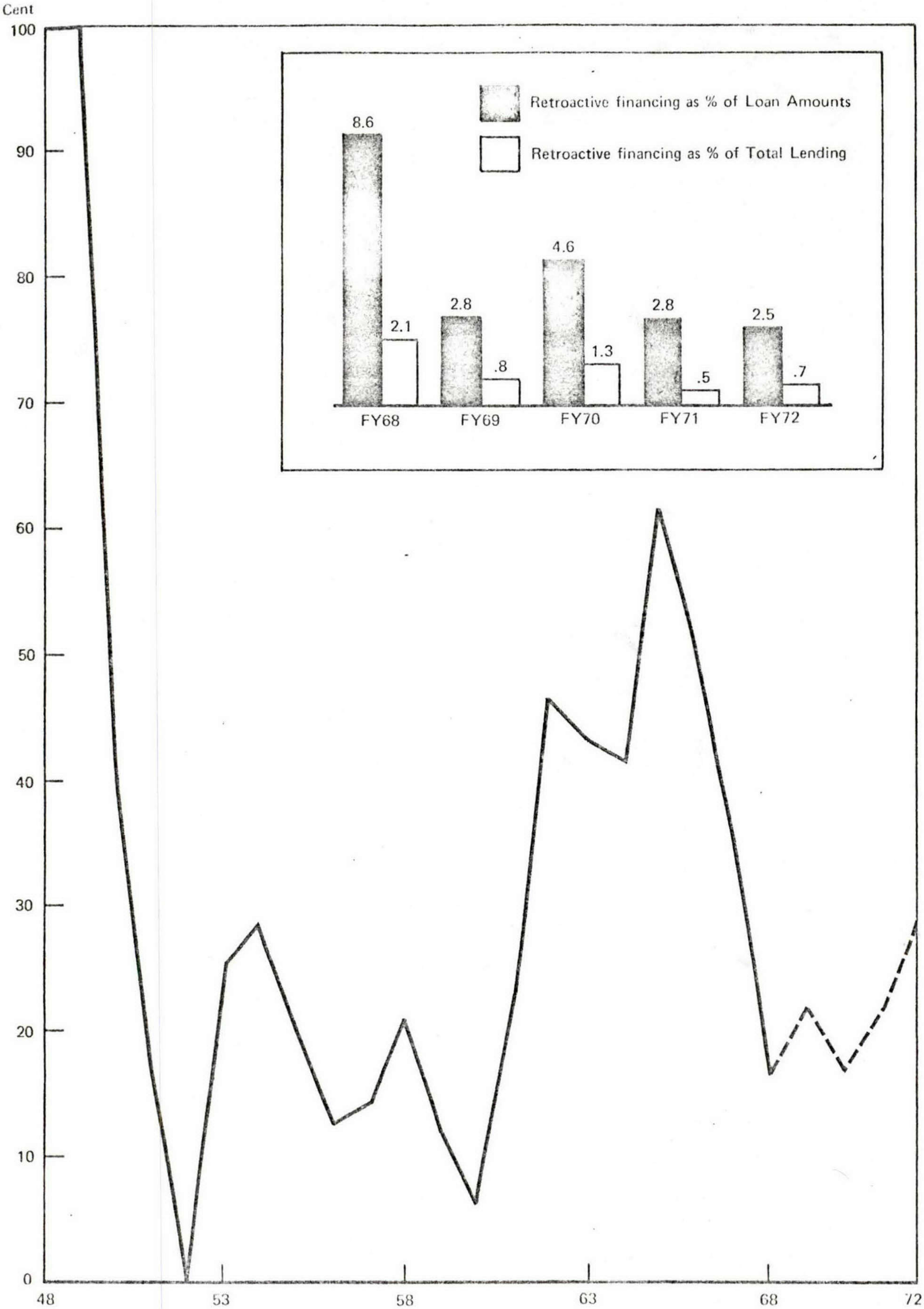
1. In the period FY68-72, 124 of the 559 projects financed by the Bank and IDA, or 22.2 percent of the total included some provision for retroactive financing. In terms of the volume of lending, 24.5 percent of lending was made up of loans and credits with some element of retroactive financing. On average, these projects tended to be slightly larger than the norm. The cumulative amount of project expenditures financed retroactively in the five-year period was $94.3 million, equivalent to 3.7 percent of the amount of the 124 operations in question but to only 0.9 percent of total Bank and IDA lending over the period.

PROJECTS WITH RETROACTIVE FINANCING

	No.	Loan & Credit Amount ($M)	Retroactive Financing Approved ($M)	Share of Retroactive Financing in Lending (%)	Proportion of Operations w/ Retroactive Financing (%)	Ratio of Retroactive Financing to Total IBRD/IDA Lending (%)
FY68	10	238.0	20.4	8.6	16.7	2.1
FY69	24	493.6	13.9	2.8	21.6	0.8
FY70	20	606.0	27.7	4.6	16.8	1.3
FY71	28	408.0	11.6	2.8	21.7	0.5
FY72	42	814.0	20.7	2.5	30.0	0.7
FY68-72	124	2,559.6	94.3	3.7	22.2	0.9

Source: Annex Table I.

CHART ONE: FREQUENCY OF PROJECTS WITH RETROACTIVE FINANCING
FY48 - FY72



Based on Sample. (Sample for FY48 and FY49 is less than 20% of projects.)

Based on complete enumeration.

World Bank - 7650

It should be noted, however, that $35.5 million or 37.6 percent of the total were for three large sector loans,[1/] and $58.8 million for the remaining 121 projects. Consequently, whereas the average amount of retroactive financing per project was $760 thousand, the median - which is not influenced by extremes at either end - worked out to less than half that figure, namely $350 thousand.

2. The trend of retroactive financing over the 1968-72 period is shown in Annex Table I. While the amount of retroactive financing approved varied from year to year, fluctuating around $20 million, it has tended to fall in proportion to total IBRD/IDA lending after 1968. While there was a sharp rise in the number of cases in FY72, the proportion of retroactive financing in total lending remained at under one percent. Beside the drop since FY68 in the ratio of retroactive financing to total lending, there has also been a decline in the incidence of such projects from the period FY63-67 to FY68-72 as shown in Chart I and summarized below. While this comparison is based only on a sample of projects for the period before FY68, the broad lines of the comparison are correct.[2/]

Fiscal year	Percent of Projects with Retroactive Financing
1948-52	25.0
1953-57	18.2
1958-62	25.4
1963-67	46.5
1968-72	22.2

Source: FY48-67: sample prepared by P&B; FY68-72: PPPRD

1/ Thirty million dollars for two power loans (in FY68 and FY70) to Mexico, and $5.5 million for a railway loan (in FY72) to India.

2/ In the three-year period for which the sample data and data based on complete enumeration overlap, namely FY68 through FY70, the sample data yielded a ratio of projects with retroactive financing to total projects of 20.1 percent compared to a figure of 18.6 percent from the complete enumeration.

B. Trends in Bank and IDA Operations with Retroactive Financing

3. In FY68 through FY72, 85 of the 124 operations with provision for retroactive financing consisted of IBRD loans and 39 of IDA credits. Bank projects had a greater frequency of such financing than IDA projects (in 24.6 percent of the cases, compared to 18.2 percent for IDA),[1/] but the proportion of the loan or credit financed retroactively was somewhat greater in the case of IDA operations than for the Bank as shown below.

FY68-FY72

	IBRD + IDA	IBRD	IDA
All Projects			
Number	559	345	214
Loan/Credit amount ($M)	10,396.4	7,713.8	2,682.6[a/]
Projects with Retro. Financing			
Number	124	85	39
Loan/Credit Amount ($M)	2,559.7	2,189.9	369.8
Retroactive Financing ($M)	94.1	76.8	17.3
% Retroactive Financing	3.7	3.5	4.7
Ratio of Retroactive Financing to Total Loan/Credit (%)	0.9	1.0	0.6

a/ Joint IBRD/IDA operations counted only once, as IBRD operations.

Source: Project appraisal reports.

4. Over the five-year period there was no clear trend in the incidence of retroactive financing in Bank projects, but the number of IDA projects with such financing increased rapidly. By 1972 about half of both the number of projects and the amount financed retroactively was attributable to IDA. The

1/ The 1968 paper on the timing of invitations to bids mentioned above showed a parallel but wider divergence between IBRD loans and IDA credits in calendar 1965-67: 45 percent of the loans had advance bidding compared to 21 percent in the case of credits.

major reason for this increase appears to have been the expansion in the number of agricultural credit operations with this feature, especially in the countries of Eastern Africa.

IBRD AND IDA RETROACTIVE FINANCING

	IBRD + IDA		IBRD		IDA	
	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)
FY68	10	20.3	7	18.8	3	1.5
FY69	24	13.9	23	13.7	1	0.2
FY70	20	27.7	14	25.0	6	2.7
FY71	28	11.6	18	9.2	10	2.4
FY72	42	20.6	23	10.1	19	10.5
FY68-72	124	94.1	85	76.8	39	17.3

Source: Project appraisal reports

C. Size and Time Span

5. Since the discussions on retroactive financing often center on the potential reward of accelerating disbursements versus the possible risk of undertaking expenditures prematurely, it is appropriate to provide an indication of the typical amount of retroactive financing per project and of the time span covered by such financing. The figures below show that in most cases the amounts involved were small: in 35.6 percent of the cases the expenditures financed retroactively were under $200,000 and in 68.7 percent under $500,000. Of the six projects with retroactive financing of more than $2 million, the largest ones were those already mentioned for electric power in Mexico and railroads in India, plus operations for electric power in Colombia, roads in Zambia and agricultural development in Malaysia.

Retroactive Financing ($ thousand)	FY68 through FY72 Number of Projects	Percent Distribution
0 - 200	42	35.6
201 - 500	39	33.1
501 - 1,000	21	17.8
1,001 - 2,000	10	8.4
More than 2,000	6	5.1
Sub-Total	118	100.0
Unspecified[a/]	6	
Total	124	

a/ Projects where the possibility of retroactive financing was noted but no amount was given.

Source: Project appraisal reports.

6. The length of time prior to the approval of the loan during which the expenditures financed retroactively have taken place has been consistent with operational guidelines. Most of the retroactively financed expenditures covered have been incurred after appraisal. During the period FY70-72, 78 percent of the projects with retroactive financing included expenditures incurred up to nine months before presentation, which is the median time between the departure of appraisal missions and Board presentation.[1/]

1/ Based on estimates by P&B dated November 14, 1972. Data for earlier years are not available.

No. of Months Before Board Presentation	Number of Projects	Percent Distribution
0 - 3.0	23	31.9
3.1 - 6.0	20	27.8
6.1 - 9.0	13	18.1
9.1 - 18.0	13	18.1
18.1 and over	3	4.2
Total, above	72	100.0
Unspecified	18	
Total	90	

Source: Project appraisal reports

D. Purpose

7. Although there are some difficulties in classifying the purposes of retroactive financing - largely because it often covers more than one kind of expenditure - in general the bulk of retroactive financing has been for consultant services and for equipment. Civil works have been of minor importance. In terms of the number of operations, clearly the hiring of consultants (for feasibility studies, engineering and design, and assistance in the preparation of bid documents) was the dominant purpose. In terms of value,

Purpose a/	No.	Amt. ($M)	Percent Distribution No. (%)	Percent Distribution Amt. (%)	Ratio of Retroactive Financing to Loan Amount of Projects (%)
Consultants	75	38.7	60.5	41.1	2.4
Equipment	23	46.1	18.5	49.0	8.6
Civil Works	13	5.8	10.5	6.2	3.5
Miscellaneous	13	3.5	10.5	3.7	1.4
Total	124	94.1	100.0	100.0	3.7

a/ If there is more than one purpose, the main one appears.

Source: Annex Table II.

the purchase of equipment was the largest category and had the largest ratio of project expenditures financed retroactively. But this was influenced by the three large sector loans mentioned above in para. 1, in which retroactively financed expenditures included a large equipment component. Furthermore, only seven of the 23 projects in this category included retroactive financing exclusively for equipment; the rest included other items such as consulting fees. The purpose of those classified under "miscellaneous" included ranch development, livestock purchases, miscellaneous commitments, and four projects where the purpose was not specified.

E. Sectoral Distribution

8. The sectoral distribution of operations is a reflection of the special circumstances of individual projects. While close to half of water supply projects included some retroactive financing - mostly for engineering services - the bulk of retroactive financing expenditures were for electric power and transportation. The data for electric power are heavily influenced by the $30 million already mentioned of retroactive financing for equipment in the case of the Mexican power sector loans. Operations in transportation often include a component for feasibility and preliminary design work undertaken before approval by the Executive Directors. In the case of agriculture, where one-fifth of the projects included retroactive financing, "seasonality" (the need to begin construction at a given time due to the weather) provided the main justification for retroactive financing.

	No.	Amt. ($M)	Percent Distribution No. (%)	Percent Distribution Amt. (%)	Share of Total No. of Projects in Sector (%)
Agriculture	30	16.8	24.3	17.8	20.7
Education	7	1.9	5.6	2.0	13.0
Industry	4	2.3	3.2	2.4	22.2
Power	21	41.1	16.9	43.7	28.8
Transportation	47	26.7	37.9	28.3	32.6
Water Supply	9	3.4	7.2	3.6	45.0
Other	6	2.1	4.9	2.2	5.7
	124	94.3	100.0	100.0	22.2

Source: Annex Table III.

F. Regional Distribution

9. The incidence of retroactive financing by operating Regions of the Bank is a function of the individual projects and the sectoral distribution of lending in particular countries. The regional data below therefore do not show any particular regional design, and the amounts are heavily influenced by a few operations. Thus, the two electric power sector loans for Mexico give an exaggerated impression of the amount of retroactive financing in Latin America and the Caribbean. The instances of retroactive financing per country were generally too small to permit generalization. A few of the more significant cases are noted below. Brazil had the largest number of projects (9) with retroactive financing in the five-year period, followed by Kenya (7) and Ethiopia (6). Two countries received more than $5 million each (Mexico and India) and 13 countries more than $1 million each, 8 of them in Africa.

	No.	Amt. ($M)	Percent Distribution No. (%)	Percent Distribution Amt. (%)	Share of Operations (%)	Share of Total Lending to Regions (%)
Eastern Africa	35	14.5	28.3	15.4	40.2	1.7
Western Africa	21	10.5	16.9	11.2	25.3	1.4
Asia	20	16.5	16.1	17.5	13.2	0.5
Europe, Middle East & North Africa	14	5.4	11.3	5.7	13.0	0.2
Latin America & Caribbean	34	47.2	27.4	50.1	26.4	1.5
Total	124	94.1	100.0	100.0	22.2	0.9

Source: Annex Table IV and project appraisal reports

Table I: RETROACTIVE FINANCING OF LOANS AND CREDITS, FY68-72: SUMMARY

($ Million)

	FY68	FY69	FY70	FY71	FY72	Cumulative FY68-72
A. Loans and Credits with Retroactive Financing						
1. Number	10	24	20	28	42	124
2. Project cost	435.3	1,359.3	1,595.6	983.5	3,044.4	7,418.1
3. Loan or Credit Amount	238.0	493.6	606.0	408.0	814.0	2,559.6
4. Ratio of Loan/Credit to Project Cost (3÷2)	54.7	36.3	38.0	41.5	26.7	34.5
Retroactive Financing:						
5. Amount	20.4	13.9	27.7	11.6	20.7	94.3
6. Share of Loan/Credit (5÷3)	8.6	2.8	4.6	2.8	2.5	3.7
B. All Loans and Credits						
7. Number	60	111	119	129	140	559
8. Project Cost	2,857.8	5,150.3	5,989.6	6,665.8	9,713.6	30,377.1
9. Loan or Credit Amount	954.0	1,784.2	2,186.1	2,505.2	2,965.9	10,395.4
10. Ratio of Loan/Credit to project Cost (9÷8)	33.4	34.6	36.5	37.6	30.5	34.2
C. Share of Loans and Credits with Retroactive Financing						
11. In Number (1÷7)	16.7	21.6	16.8	21.7	30.0	22.2
12. In Amount (3÷9)	24.9	27.7	27.7	16.3	27.4	24.6
D. Share of Total Lending Financed Retroactively (5÷9)	2.1	0.8	1.3	0.5	0.7	0.9

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Table II: IBRD/IDA RETROACTIVE FINANCING, FY68-72, BY PURPOSE

Purpose a/	FY68		FY69		FY70		FY71		FY72 b/		Cumulative FY68-72		Percent Distribution		Loan/Credit Amt. of Projects with Retro.Financing FY68-72	Retro. Fin. as % of Loan/Credit Amount
	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No. (%)	Amt. (%)	($M)	(%)
Consultants	6	5.1	13	8.0	8	2.7	21	8.3	27	14.6	75	38.7	60.5	41.1	1,599.4	2.4
Equipment c/	1	15.0	4	2.8	6	22.2	4	1.6	8	4.5	23	46.1	18.5	49.0	536.9	8.6
Civil Works	1	n.a.	3	1.1	5	2.8	2	1.6	2	0.3	13	5.8	10.5	6.2	167.1	3.5
Miscellaneous d/	2	0.2	4	2.0	1	n.a.	1	0.1	5	1.2	13	3.5	10.5	3.7	256.2	1.4
Total	10	20.3	24	13.9	20	27.7	28	11.6	42	20.6	124	94.1	100.0	100.0	2,559.6	3.7

a/ If more than one purpose, the dominant purpose appears.

b/ Includes two projects approved but not signed in FY72.

c/ Eleven of the total 23 projects are equipment only; 7 include consulting fees.

d/ Four of the total 14 are unspecified.

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Table III: IBRD/IDA RETROACTIVE FINANCING, FY68-72, BY SECTOR

Sector	Retroactive Financing										Cumulative FY68-72		Percent Distribution		Loan/Credit Amounts of Retro. Fin. FY68-72	% Share of Retro. Fin.	Total Loan/Credit to Sectors		% of Projects with Retro. Fin.	
	FY68		FY69		FY70		FY71		FY72*											
	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. (($M)	No.	Amt. ($M)	No. (%)	Amt. (%)	($M)	(%)	No.	Amt. ($M)	No. (%)	Amt. (%)
Agriculture	(1)	0.2	(5)	4.2	(8)	6.6	(6)	2.8	(10)	3.0	(30)	16.8	24.3	17.8	330.4	5.1	(145)	1,823.0	20.7	0.9
Communications	-	-	(1)	1.7	-	-	(1)	0.1	-	-	(2)	1.8	1.6	1.9	90.0	2.0	(27)	475.0	7.4	0.4
DFC'S	-	-	(1)	n.a.	-	-	-	-	-	-	(1)	n.a.	0.8	n.a.	22.0	n.a.	(55)	1,073.0	1.8	n.a.
Education	(1)	n.a.	-	-	(1)	0.5	(1)	0.1	(4)	1.3	(7)	1.9	5.6	2.0	75.0	2.5	(54)	474.0	13.0	0.4
Industry	(1)	0.5	-	-	-	-	(1)	0.3	(2)	1.5	(4)	2.3	3.2	2.4	145.5	1.6	(18)	564.0	22.2	0.4
Non-Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	490.0	-	-
[illegible]lation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5)	44.0	-	-
[illegible]	(4)	17.7	(3)	1.3	(3)	15.8	(5)	2.8	(6)	3.5	(21)	41.1	16.9	43.7	823.9	5.0	(73)	2,201.0	28.8	1.9
[illegible]sm	-	-	-	-	-	-	-	-	(1)	0.1	(1)	0.1	0.8	0.1	4.2	2.4	(5)	80.0	20.0	0.1
Transportation	(2)	1.4	(12)	6.1	(7)	4.8	(11)	3.7	(15)	10.7	(47)	26.7	37.9	28.3	971.4	2.7	(144)	2,823.0	32.6	0.9
Urbanization	-	-	-	-	-	-	-	-	(1)	0.2	(1)	0.2	0.8	0.2	2.3	8.7	(3)	15.0	33.3	1.3
Water Supply	(1)	0.6	(2)	0.6	-	-	(3)	1.8	(3)	0.4	(9)	3.4	7.3	3.6	92.4	3.7	(20)	326.0	45.0	1.0
Technical Assistance	-	-	-	-	(1)	n.a.	-	-	-	-	(1)	n.a.	0.8	n.a.	2.5	n.a.	(3)	8.0	33.3	n.a.
Total	(10)	20.4	(24)	13.9	(20)	27.7	(28)	11.6	(42)	20.7	(124)	94.3	100.0	100.0	2,559.6	3.7	(559)	10,396.0	22.2	0.9

* Includes two projects approved but not signed in FY72.

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Table IV: IBRD/IDA RETROACTIVE FINANCING, FY68-72, BY REGION AND COUNTRY

	(1)		(2)		(3)		(4)		(5)		(6)		(7)	(8)	(9)		(10)		(11)
	Retroactive Financing										Cumulative FY68-72		Loan/Credit Amt. of Projects with Retro. Financing FY68-72	Retro. Amt. as % of loan/credit amount	Total loan/credit to country FY68-72		% of Projects with retro. financing		% of Retro. finance to total lending to country
	FY68		FY69		FY70		FY71		FY72*										
	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	No.	Amt. ($M)	($M)	(%)	No.	Amt. ($M)	No. (%)	Amt. (%)	(%)
Eastern Africa																			
Botswana	-	-	-	-	(1)	n.a.	(1)	0.1	(1)	0.2	(3)	0.3	36.5	0.8	(5)	41.2	(60.0)	88.6	0.7
East African Comm.	-	-	-	-	(1)	0.9	-	-	-	-	(1)	0.9	35.0	2.6	(4)	95.8	(25.0)	36.5	0.9
Ethiopia	-	-	-	-	(1)	0.8	(1)	0.1	(4)	0.8	(6)	1.7	45.1	3.8	(10)	114.4	(60.0)	39.4	1.5
Kenya	(1)	1.1	-	-	(1)	0.3	(3)	1.2	(2)	1.5	(7)	4.1	129.1	3.2	(11)	143.5	(63.6)	90.0	2.9
Malagasy Rep.	(1)	n.a.	(1)	0.2	-	-	-	-	(1)	0.2	(3)	0.4	22.9	1.7	(5)	45.5	(60.0)	50.3	0.9
Malawi	-	-	-	-	-	-	(1)	0.1	-	-	(1)	0.1	7.3	1.4	(6)	40.4	(16.7)	18.1	0.2
Mauritius	-	-	-	-	-	-	(1)	0.1	-	-	(1)	0.1	5.2	1.9	(2)	8.7	(50.0)	59.8	1.1
Somalia	-	-	-	-	-	-	-	-	(1)	0.1	(1)	0.1	9.6	1.0	(4)	15.8	(25.0)	60.8	0.6
Sudan	-	-	-	-	-	-	-	-	(1)	0.6	(1)	0.6	11.3	5.3	(4)	48.8	(25.0)	23.2	1.2
Tanzania	-	-	-	-	-	-	(2)	1.2	(2)	0.7	(4)	1.9	56.3	3.4	(10)	96.6	(40.0)	58.3	2.0
Uganda	(2)	0.4	-	-	-	-	-	-	-	-	(2)	0.4	8.4	4.8	(6)	34.3	(33.3)	24.5	1.2
Zaire	-	-	-	-	-	-	(1)	0.2	(1)	0.1	(2)	0.3	26.0	1.2	(5)	53.5	(40.0)	48.6	0.6
Zambia	-	-	(2)	3.1	(1)	0.5	-	-	-	-	(3)	3.6	18.5	19.5	(7)	86.7	(42.9)	21.3	4.2
Sub-total	(4)	1.5	(3)	3.3	(5)	2.5	(10)	3.0	(13)	4.2	(35)	14.5	411.2	3.5	(79)	825.2	(44.3)	49.8	1.8
Western Africa																			
Cameroon	-	-	(2)	1.0	-	-	-	-	-	-	(2)	1.0	12.9	7.8	(9)	62.4	(22.2)	20.7	1.6
Cen. African Rep.	-	-	(1)	0.2	-	-	-	-	-	-	(1)	0.2	4.2	4.8	(3)	12.4	(33.3)	33.9	1.6
Chad	-	-	-	-	-	-	-	-	(1)	0.1	(1)	0.1	2.2	4.5	(4)	10.3	(25.0)	21.4	1.0
Dahomey	-	-	-	-	-	-	(1)	0.3	-	-	(1)	0.3	3.5	8.6	(3)	14.2	(33.3)	24.6	2.1
Gabon	-	-	(1)	0.4	-	-	-	-	-	-	(1)	0.4	6.0	6.7	(2)	7.8	(100.0)	76.9	5.1
Ghana	-	-	-	-	-	-	(1)	0.8	-	-	(1)	0.8	7.1	11.3	(7)	37.9	(14.3)	18.7	2.1
Guinea	-	-	(1)	0.3	-	-	(1)	0.2	-	-	(2)	0.5	73.5	0.7	(2)	73.5	(50.0)	100.0	0.7
Ivory Coast	-	-	(1)	2.0	-	-	(1)	0.4	-	-	(2)	2.4	24.1	1.0	(7)	86.4	(28.6)	27.9	2.8
Liberia	-	-	(1)	0.4	-	-	-	-	(1)	0.1	(2)	0.5	10.8	4.6	(6)	25.1	(33.3)	43.0	2.0
Mali	-	-	-	-	(1)	0.4	-	-	-	-	(1)	0.4	7.7	5.2	(3)	18.2	(33.3)	42.3	2.2
Nigeria	-	-	-	-	(1)	0.4	-	-	(3)	1.6	(4)	2.0	130.2	1.5	(10)	272.9	(40.0)	47.7	0.7
Senegal	-	-	(1)	1.4	-	-	(1)	0.1	-	-	(2)	1.5	10.9	13.8	(5)	36.3	(40.0)	30.0	4.1
Sierra Leone	-	-	-	-	-	-	(1)	0.4	-	-	(1)	0.4	7.2	5.6	(4)	18.4	(25.0)	39.1	2.2
Sub-total	-	-	(8)	5.7	(2)	0.8	(6)	2.2	(5)	1.8	(21)	10.5	300.3	3.5	(65)	675.8	(32.3)	44.4	1.6
Asia																			
Fiji	-	-	-	-	-	-	(1)	0.6	-	-	(1)	0.6	11.8	5.1	(2)	14.0	(50.0)	84.3	4.3
India	-	-	(1)	1.7	-	-	-	-	(1)	5.5	(2)	7.2	130.0	5.5	(27)	1,201.1	(7.4)	10.8	0.6
Indonesia	-	-	-	-	-	-	-	-	(1)	0.2	(1)	0.2	11.0	1.8	(24)	332.9	(4.2)	3.3	0.1
Malaysia	-	-	-	-	(1)	3.4	(1)	0.3	(1)	0.3	(3)	4.0	40.1	1.0	(12)	150.1	(25.0)	26.7	2.7
Nepal	-	-	-	-	-	-	(1)	0.1	(1)	0.1	(2)	0.2	6.7	3.0	(3)	8.4	(66.7)	79.8	2.4
Pakistan	-	-	(1)	0.5	(2)	0.8	-	-	-	-	(3)	1.3	62.0	2.1	(24)	331.2	(12.5)	18.7	0.4
Paupa New Guinea	-	-	-	-	(2)	1.0	-	-	(1)	0.2	(3)	1.2	23.2	5.2	(6)	63.9	(50.0)	36.3	1.9
Philippines	-	-	-	-	(1)	0.2	(1)	0.8	(1)	0.1	(3)	1.1	74.0	1.5	(7)	133.3	(42.9)	55.5	0.8
Sri Lanka	-	-	-	-	(1)	0.2	-	-	-	-	(1)	0.2	29.0	0.7	(7)	76.3	(14.3)	38.0	0.3
Thailand	-	-	-	-	-	-	-	-	(1)	0.5	(1)	0.5	15.4	3.2	(7)	179.4	(14.3)	8.6	0.3
Sub-total	-	-	(2)	2.2	(7)	5.6	(4)	1.8	(7)	6.9	(20)	16.5	403.2	4.1	(119)	2,490.6	(16.8)	16.2	0.7
Europe, Middle East & North Africa																			
Cyprus	-	-	(1)	0.2	-	-	(2)	1.3	-	-	(3)	1.5	16.9	8.9	(6)	33.9	(50.0)	49.9	4.4
Finland	-	-	(1)	n.a.	-	-	-	-	-	-	(1)	n.a.	[illegible]	n.a.	(3)	55.0	(33.3)	43.0	n.a.
Iceland	-	-	-	-	-	-	(1)	0.2	-	-	(1)	0.2	4.1	4.9	(1)	4.1	(100.0)	100.0	4.9
Iran	-	-	-	-	-	-	-	-	(1)	0.2	(1)	0.2	29.0	0.7	(14)	455.5	(7.1)	6.4	0.0+
Israel	-	-	-	-	-	-	(1)	1.5	-	-	(1)	1.5	20.0	7.5	(4)	90.0	(25.0)	22.2	1.7
Morocco	-	-	-	-	(1)	0.5	-	-	-	-	(1)	0.5	46.0	1.1	(9)	193.1	(11.1)	23.8	0.3
Tunisia	-	-	(2)	0.2	-	-	(1)	0.4	-	-	(3)	0.6	33.0	1.8	(15)	164.1	(20.0)	20.1	0.4
Turkey	-	-	(1)	0.6	-	-	-	-	(2)	0.3	(3)	0.9	64.3	1.4	(14)	372.8	(21.4)	17.2	0.2
Sub-total	-	-	(5)	1.0	(1)	0.5	(5)	3.4	(3)	0.5	(14)	5.4	235.3	2.3	(66)	1,368.5	(21.2)	17.2	0.4
Latin America & Caribbean																			
Argentina	(1)	n.a.	(1)	0.3	-	-	-	-	-	-	(2)	0.3	137.0	0.2	(7)	388.8	(28.6)	35.2	0.1
Bolivia	-	-	-	-	(1)	2.0	-	-	-	-	(1)	2.0	23.2	8.6	(4)	38.9	(25.0)	59.6	0.5
Brazil	(1)	0.5	(1)	0.3	(2)	0.6	(2)	1.1	(3)	1.6	(9)	4.1	503.5	0.8	(19)	939.3	(47.4)	53.6	0.4
Chile	-	-	(1)	0.4	-	-	-	-	-	-	(1)	0.4	11.6	3.4	(4)	30.9	(25.0)	37.5	1.3
Colombia	(2)	3.1	(1)	0.5	-	-	-	-	-	-	(3)	3.6	49.2	7.3	(21)	493.3	(14.3)	10.0	0.7
Costa Rica	-	-	-	-	(1)	0.5	-	-	(2)	1.1	(3)	1.6	27.5	5.8	(7)	70.2	(42.9)	39.2	2.3
Ecuador	-	-	-	-	-	-	-	-	(1)	1.4	(1)	1.4	6.8	20.6	(6)	36.7	(16.7)	18.5	3.8
Honduras	-	-	-	-	-	-	-	-	(1)	0.3	(1)	0.3	12.3	2.4	(5)	43.4	(20.0)	28.3	0.7
Jamaica	-	-	(1)	0.1	-	-	-	-	-	-	(1)	0.1	5.0	2.0	(4)	24.2	(25.0)	20.7	0.4
Mexico	(1)	15.0	-	-	(1)	15.0	-	-	(2)	0.1	(4)	30.1	310.0	9.7	(12)	706.3	(33.3)	43.9	4.3
Nicaragua	(1)	0.2	-	-	-	-	-	-	(2)	0.3	(3)	0.5	46.2	1.1	(4)	50.2	(75.0)	92.0	1.0
Panama	-	-	-	-	-	-	-	-	(2)	0.8	(2)	0.8	23.4	3.4	(3)	65.4	(66.7)	35.8	1.2
Trinidad & Tobago	-	-	(1)	0.3	-	-	-	-	-	-	(1)	0.3	2.0	15.0	(4)	16.4	(25.0)	12.2	1.8
Venezuela	-	-	-	-	-	-	(1)	0.1	(1)	1.6	(2)	1.7	52.0	3.3	(5)	114.0	(40.0)	45.6	1.5
Sub-total	6	18.8	(6)	1.9	(5)	18.1	(3)	1.2	(14)	7.2	(34)	47.2	1,209.7	3.9	(105)	3,018.0	(32.4)	40.1	1.6
Total-All Countries Receiving Retroactive Financing	(10)	20.3	(24)	14.1	(20)	27.5	(28)	11.6	(42)	20.6	(124)	94.1	2,559.7	3.7	(434)	8,378.1	(28.6)	30.6	1.1
GRAND TOTAL- All Countries	-	-	-	-	-	-	-	-	-	-	(124)	94.1	2,559.7	3.7	(559)	10,395.4	(22.2)	24.6	0.9

* FY72 column includes 2 projects which were approved but not signed by June 30, 1972.

Policy Planning & Program Review Department
March 21, 1973

Operational Policy Memorandum

ADVANCE CONTRACTING

1. In this memorandum "advance contracting" means a contract or contracts signed by a prospective borrower or beneficiary for a project prior to signature of the loan to finance it. References to the Bank and to loans apply equally to IDA and to credits.

2. It is in general undesirable for the Bank to become involved in a project, if a substantial amount of construction work has been carried out and a substantial amount of the equipment needed has already been ordered. To do so, particularly if the work is well advanced, raises the question of the need for Bank financing at all. Moreover, for a would-be borrower to place orders for a project before the loan for the project is approved might give rise to the impression that approval by Executive Directors is a mere formality.

3. To some extent the justification for advance contracting depends on the nature of the project and the proportion of it which is financed by the Bank. Where, for example, the Bank finances expenditure during a two-year period of a railway program, the contract-making process will be a continuous one, and the Bank will pick out some of the contracts to provide a basis for disbursement. In such a loan the Bank does not attempt to require adherence to Bank standards for all the purchases falling within the two-year period, although it does satisfy itself about the contractual arrangements for the equipment included in its loan. Or, to take another example, work of a preliminary character may have been carried out, and contracts involving long mobilization periods and seasonal consideration may well have been signed and this fact should not of itself disqualify the project from being financed or the expenditure from being reimbursed.

4. In the course of project appraisal the extent of advance contracting can be ascertained and a judgment made as to the extent to which the Bank can regard it as justified and include it in the expenditure to be financed out of the loan. Each case must be weighed on its own merits. In general, it is easier to accept contracts signed prior to loan signature if they represent only a small proportion of the cost of the total project. The time expected to elapse between the signing of contracts and presentation to the Executive Directors should also be taken into account; contracts signed during or after appraisal are more acceptable than those signed before the Bank became involved.

5. Most cases are likely to fall under one or other of the following heads:

(a) Engineering and design work. (See O.P.M. No. 2.11, "Financing of Detailed Engineering.")

(b) Preliminary work which has to be done before the main part of the project is started, such as access roads.

(c) Equipment required by an operating entity according to a continuing long-term investment program, a portion of which is the project.

(d) Equipment which if not ordered well in advance would delay work on the project.

(e) Equipment which has to be standardized and which must be ordered within a limited time to take advantage of options granted under previous orders.

(f) Cases when the Bank has to defer

presentation of a loan to the Executive Directors because of circumstances beyond the control of the borrower or guarantor.

6. Once the Bank has approved the inclusion of a contract, disbursement for payments under it cannot be refused solely on grounds of their retroactive character.

7. Pending a change in Section 5.01 of "General Conditions Applicable to Loan and Guarantee Agreements," there will be a provision in the loan agreement to the effect that except as the Bank shall otherwise agree, the Bank will not permit withdrawals in respect of expenditures under contracts made before the signature of the loan.

Form No. 830
(1-73)

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

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PRC/M/73-3

June 18, 1973

BANK LENDING TO HIGHER INCOME COUNTRIES:
POLICY REVIEW COMMITTEE MEETING

The attached paper, which has been prepared by the Policy Planning and Program Review Department and which was reviewed by a staff committee of the Policy Review Committee on May 21, 1973 (minutes attached), will be discussed by the Policy Review Committee on July 17, 1973 at 2 p.m. in the President's office.

Pedro-Pablo Kuczynski
Secretary
Policy Review Committee

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IBRD Department Directors

REVISED DRAFT
FVibert/PPKuczynski/rso
June 11, 1973

IBRD LENDING TO HIGHER INCOME COUNTRIES

I. The Problem

1. This paper reviews past and prospective IBRD lending to countries with relatively high per capita GNP levels, analyzing such lending as a claimant upon IBRD resources. There are several reasons why such a review is appropriate:

- Lending to the higher income countries which are still considered eligible for Bank assistance has grown substantially: if the six largest borrowers in the period FY69-73 (Brazil, Colombia, Iran, Mexico, Turkey and Yugoslavia) are excluded, lending to the higher income group has grown as fast in relation to the previous five-year period as lending to the rest of lower income countries which receive Bank assistance.
- The available evidence suggests - contrary to expectations - that the staff input in higher income countries has been proportionately as high as in poorer and administratively less sophisticated countries, and has been especially heavy in agriculture and education, sectors where the needs of the poorer countries are very large.
- Several member governments have expressed concern about the level of Bank lending to countries in the higher income range and urged caution in such lending for the future.

2. Over the years, leaving aside the post-war reconstruction loans to a few European countries, Bank lending has been gradually phased out to a number of countries with high per capita incomes: Australia, Austria, Denmark, Italy, Japan, Norway and South Africa. In all these cases, the growth of incomes was

accompanied by increasing ease in obtaining capital requirements from commercial sources, on terms and conditions which the Bank considered reasonable. Thus, under Article III, Section 4(ii) of the Articles of Agreement, Bank assistance was no longer justified, since, in order to consider lending to a country, the Bank has to be satisfied, among other conditions, that "in the prevailing market condition the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower."

3. The question is whether these same criteria apply to the present group of high-income countries, and whether the gradual phase-out of new lending to the higher income countries now planned in the lending program for FY74-78 is consistent with the objectives of the Bank as a development institution.

II. The Higher Income Countries

4. For the purposes of this paper, higher income countries are those which had already reached a per capita GNP level in 1970 - as shown in the latest Bank Atlas of 1972 - of $1,000, or which can be reasonably expected to reach such a level in constant prices within the forthcoming five-year lending program period FY74-78. There are thirteen countries which fall within the definition and for which lending programs are contemplated.[1/] Of course,

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1/ The thirteen countries are: New Zealand, Iceland, Finland, Israel, Ireland, Argentina, Spain, Greece, Venezuela, Cyprus, Singapore, Trinidad & Tobago, and Uruguay. No lending is at present contemplated for Malta, but it is shown in Annex Table 1. Romania has been excluded since evidence collected by the recent Bank economic mission is expected to establish that GNP per capita is below the level shown in the 1972 Bank Atlas.

reaching the $1,000 per capita level does not mean that the country has become "developed",[1/] that it has ceased to rely on external borrowing to finance its further economic progress, or that its development efforts can be relaxed. The level of $1,000 income per capita cannot be considered a cut-off point in a policy sense, since it is evident that many other factors affect the ability of countries to obtain external finance for their development on reasonable terms; the $1,000 level ought to be considered only as an illustrative point of departure for analysis. Nevertheless, the countries which fall within the definition - $1,000 in per capita income now or in the next five years in constant prices - do in most cases share a number of features associated with their higher per capita GNP and level of development.

A. <u>Level of Development</u>

5. Annex Table 2 shows some of the key indicators of the structure of these economies. The relatively advanced state of these economies can be broadly summarized as follows:

a. a substantial contribution of manufacturing to the GNP - the median was 28.7 percent of GNP in 1966-70;

b. a relatively low share of agriculture (even in those countries which still rely on agricultural products for a major share of their foreign exchange earnings);

c. rates of unemployment which are substantially below those in most developing countries;

1/ According to OECD/DAC definition, New Zealand, Iceland, Finland and Ireland are not counted as developing countries. The UN definition of developing countries also excludes Israel, Spain, Greece and Malta.

d. the quality of life for the bulk of their populations has already reached a level well beyond that in most developing countries. The comparisons in Annex Table 2 with the median of developing countries in the range of per capita GNP of $350 to $500 show this clearly for indicators such as infant mortality, the availability of physicians, nutrition standards, and educational statistics. More important, with their relatively low population growth rates, the higher income countries have good prospects to be able to continue to improve rapidly the living standards of their inhabitants; and

e. on the external side, most of the countries have in their balance of payments current account deficits which are relatively much smaller than the average for developing countries, a lower debt service ratio (the median was 4.2 percent in 1966-70), and international reserves which are in most cases significantly higher than in most developing countries. The rate of growth of their export earnings has on average been higher than the median for other developing countries.

6. There is, of course, a wide diversity between the countries included in this analysis. The fact that all the countries in the group exhibit a level of development well above that of the remainder of developing countries does not necessarily mean that they do not face special constraints or that they do not need Bank financing. For example, Argentina and Uruguay face serious balance of payments difficulties. Some of the economies could be vulnerable because of some special feature: for example, Israel because of political reasons, or Venezuela because of its dependence on a rapidly depleting resource. Nevertheless, despite these individual features, there is little doubt that the higher income countries, taken as a group, have basic economic characteristics which set them aside from most of the other developing countries. Given good domestic economic management and stable conditions in the external capital markets, these higher

income countries are likely to have relatively good access to the financial markets.

B. Access to Financial Markets

7. There is a closely correlation between the relative prosperity of a country and its ability to raise external loans from private sources. Whether these funds can be obtained at reasonable terms is of course the decisive element in whether or not Bank funds are justified for a particular country. For the higher income countries shown in Annex Table 2, a preponderance of financing from private sources in their external public debt is combined with a low debt service ratio. As of 1971, 74 percent of the external public debt of the higher income countries was owed to private sources (the median was 55 percent); the comparable proportions in the case of countries in the $350-500 per capita GNP range were 13 and 11 percent respectively. The fact that the high proportion of borrowing from private sources by the higher income countries in general has not been accompanied by a high debt service ratio is a reflection not only of the small external borrowing requirements and of the conditions at which these funds are obtained, but also, and most importantly, because of the relatively rapid growth rate of export earnings and of the prudent borrowing policies of most of these countries. Whether these countries would be able to substitute additional private borrowing at a reasonable cost if the Bank were to phase out lending is of course a subjective judgment. For this very reason the Bank does not have rigid rules about the phasing out of lending. But for many of the countries in this group the growth of foreign issues in national bond markets and in the Euromarket as well as the recent growth of medium-term Euro lending and the easy availability of official and private

export credits makes it difficult to believe that they would face unreasonable costs in borrowing from market sources.

8. Information on the cost of borrowing by these countries in 1971, based on the IBRD's debtor reporting system (DRS), suggests in fact that these countries have been able to borrow from private sources at cost not much different from the IBRD's standard interest rate. The table below shows actual costs of borrowing from private sources in 1971 for the higher income countries based on information in the DRS. Some marginal borrowings can be seen to have carried a high rate of interest(of about 10 percent) but the average has usually been around the rate charged by IBRD. The costs do not take into account possible adjustments in costs which might be appropriate in the case of suppliers' credits.

Table I: INTEREST RATE ON PRIVATE BORROWINGS 1971 a/

(selected higher income countries: percent)

	Highest	Lowest	Median
New Zealand	7.5	7.3	7.5
Finland	8.8	4.8	7.5
Ireland	10.5	6.0	8.4
Israel	9.3	4.0	6.9
Greece	8.0	5.8	6.8
Spain	8.5	5.6	7.5
Argentina	10.1	6.5	8.0
Venezuela	7.8	5.8	6.8
Uruguay	7.0	6.0	6.5

a/ Included in this sample are loans over $5 million contracted in 1971 from private banks and suppliers, or through public and private bond issues.

9. The DRS records all borrowings from private sources which are public or publicly guaranteed on the debtor side. The table thereby excludes credits which are guaranteed only on the creditor side. Another gap in coverage is

borrowing which is neither guaranteed on the creditor side nor the debtor side. While these gaps make it difficult to draw firm conclusions from DRS information on whether the higher income countries could substitute private borrowing on reasonable terms for IBRD lending, it is at least fairly clear that most of these countries have access to market sources of finance. This statement is reinforced by recent developments in the medium-term Euro market. Partial information obtained from press sources, reproduced in the table below, shows that developing countries in general - and the higher income countries among them in particular although not exclusively - have had increasing access to this source of financing. Although there is a wide range of terms and detailed information on them is not always available because many of the loans shown are either not subject to the DRS or have not yet been reported, in general such borrowing by developing countries is at maturities ranging from 3 to 10 years and usually at an interest cost based on a margin over the interest rate paid on inter-bank Eurodollar deposits in London. Since the latter rate is a fluctuating one, every six months (or sometimes a shorter period) the base for the interest cost of the loan is changed. Thus, in the case of a loan at a cost of one percent over the six-month Eurodollar deposit rate (a typical cost for medium-term loans to the more creditworthy developing countries), the present interest cost would be about 9 1/2 percent (8 1/2 percent for the six-month deposit rate plus the one percent margin). While such a cost is not low, whether the terms are "reasonable" or not has to be determined in relation to the expected rate of return of the investments to be financed, to the debt servicing capacity of the country, and to the cost of competing sources of finance. No general judgment on this score for the higher income countries as a group is possible, since each one has its own particular features. What can be said, however, is that for most of these countries the range of possibilities for medium-term and in some cases long-term external finance from private sources is much wider today than five or ten years ago, and that with the relatively high rates of growth of export earnings which these countries have, they can avail themselves of this type of financing with considerably less risk for their debt-servicing prospects than countries with slow export growth.

Table II: EURO-CURRENCY LOANS TO DEVELOPING COUNTRIES, BY NATIONALITY OF BORROWERS CY 1971 and CY 1972

(in millions of US$)

Developing Countries	CY 1971	CY 1972
Algeria	120.0	200.0
Argentina	50.0	263.7
Brazil	212.0	492.3
Burnei	-	27.5
Columbia	-	50.0
Dominican Republic	-	4.0
Dubai	-	18.3
Gabon	10.0	25.0
Greece	60.0	290.0
Greenland	-	41.0
Guinea	-	40.0
Hong Kong	-	20.0
Indonesia	-	52.6
Iran	224.0	405.4
Israel	-	10.0
Ivory Coast	22.0	-
Kenya	-	15.0
Malaysia	-	76.1
Mauritania	8.0	-
Mexico	140.0	443.8
Nicaragua	10.0	15.0
Panama	16.0	20.0
Peru	-	195.4
Philippines	-	50.0
South Korea	40.0	40.0
Spain	420.0	207.1
Swaziland	-	3.2
Venezuela	78.3	161.5
Zaire	55.0	70.0
Zambia	-	55.0
Yugoslavia	10.0	225.0
Sub-total	1,475.3	3,516.9

Source: "Tombstones" and articles from several newspapers and magazines; compiled by Economic Analysis and Projections Department.

III. The Scale of IBRD Operations in the Higher Income Countries

10 Although the share of lending to higher income countries has dropped by half in recent years, the volume of lending is substantial and growing. As shown in the table below in the five-year period FY69-73 just ending, the higher income countries received 14 percent of total IBRD lending, an annual average of about $250 million. While this share represents a sharp decline from earlier periods, when lending to higher income countries accounted for about one-third of IBRD lending, the drop is accounted for by the ending of IBRD operations in a number of European countries, Australia, South Africa, and Japan. In those countries where the Bank remains active, lending rose from $439 million in FY59-63 to $795 million in FY64-68 with a further increase to $1,251 million in FY69-73. Of this last total, close to half is accounted for by lending to Spain and Argentina, with another quarter to Greece, Israel and Venezuela.

11. A number of features characterize the volume of lending to higher income countries:

a. It has not constituted a major burden on IBRD financial resources. This is so not only because of the Bank's general ability to borrow in the financial markets, but also because it is easier - if the need arises - to obtain funds through the sale of participations in the loans to some of these countries. Sales of participations on the loans made in the period FY69-73 to the thirteen countries mentioned above have accounted for 24 percent of total IBRD loan sales and participations during that period.

Table III: IBRD COMMITMENTS TO 'HIGHER INCOME' COUNTRIES a/

(US$ million)

		FY59-63	FY64-68	FY69-73	FY74-78
Active borrowers					
New Zealand	(2,700)	-	103	24	-
Iceland	(2,660)	2	18	4	6
Finland	(2,390)	87	70	75	20
Israel	(1,960)	75	35	105	150
Ireland	(1,360)	-	-	98	42
Argentina	(1,160)	144	70	319	350
Greece	(1,090)	-	13	107	135
Spain	(1,020)	-	188	240	220
Venezuela	(980)	45	202	114	140
Cyprus	(950)	21	3	36	30
Singapore	(920)	15	58	53	90
Trinidad & Tobago	(860)	24	14	37	43
Uruguay	(820)	26	13	39	65
Malta b/	(810)	-	8	-	-
Total		439	795	1,251	1,291
Past Borrowers c/		659	545	-	-
Total		1,098	1,340	1,251	1,291
Annual Average		219	268	250	258
Percent of IBRD lending					
active borrowers		14	19	14	9
past borrowers		20	12	-	-
Total		34	31	14	9

a/ Countries ranked by per capita income level (shown in parentheses after each) according to 1972 World Bank Atlas.
b/ Shown in the table in case IBRD operations are resumed
c/ Australia, Austria, Denmark, Italy, Japan, Norway, and South Africa.

Note: For further detail see Annex Table I attached.

Figures for FY74-78 are taken from the most recent Standard Table IV (P&B, 5/14/73) with the exception of Finland where only one further loan for $20 million is shown in the table above as against 2 for $40 million in Standard Table IV. The EMENA region has informed the authors that they are intending to propose a substantially lower lending program for Spain at the next management review of that country.

b. Operations in the higher income countries have absorbed a substantial proportion of staff time. Not only has the number of operations in these countries been as large as the volume of lending, but the preparatory work which has gone into the operations has been substantial. The average size of loans to the group was $21 million, or somewhat smaller than the average of $23 million for other countries, an average which is of course heavily influenced by a few large operations in Brazil and Mexico. Consequently, as shown in the table below, the share of operations in the higher income countries in FY69-73 was slightly higher - 15 percent - than their 14 percent share in the volume of lending. Contrary to expectations, the input of staff time into these operations

Table IV: IBRD OPERATIONS IN HIGHER INCOME COUNTRIES a/

	FY64-68			FY69-73		
	No. of Operations	Average Size $ mil.	Share of Total Operations %	No. of Operations	Average Size $ mil.	Share of Total Operations %
Higher income countries	34	23	17	60	21	15
Other IBRD	169	21	83	331	23	85
Total IBRD	203	21	100	391	23	100

a/ Countries at present active, as shown in Table III.

does not appear to have been significantly lower than for operations in other poorer countries. In both FY71 and FY72, operations in the higher income countries absorbed between 8 percent and 9 percent of total available projects staff time spent on IDA and IBRD projects or about 15 percent of the total staff time spent on IBRD projects. The input of country economic analysis has also been heavy: in the period FY71-73, 30 economic missions visited these countries, or

15 percent of Bank Group economic missions. Allowing for overhead and indirect inputs and the splitting of administrative expenses between IBRD and IDA, they account for 15 to 20 percent of the IBRD administrative budget.[1/]

Table V: PROJECT STAFF TIME SPENT ON LENDING TO HIGHER INCOME COUNTRIES [a/]

	FY71	FY72	First half FY73	Total
Preappraisal	9.7	8.7	2.4	7.6
Appraisal and Board	10.0	7.7	4.5	8.1
Supervision	6.7	8.3	8.4	7.8
Total	8.7	8.1	5.3	7.8

a/ Expressed as percent of project staff time spent on all countries.

c. The growth in lending to higher income countries has taken place largely for agriculture and education projects. Since these are sectors where the needs of the poorer countries are large and where the availability of staff is a constraint upon Bank Group operations, there is at least a reasonable presumption that lending for these sectors in the higher income countries has restrained operations in other countries where the need was probably greater. As the table below shows, one-third of operations in the higher income countries were for agriculture and education in the period FY69-73. Of the operations in countries which had already reached a per capita GNP over $1,000 in 1970, Ireland received one loan for education and one for agriculture (out of a total of six operations during the period); Greece, two for education and one for

1/ This calculation assumes that various overhead and administrative costs are shared over all operations. Obviously many such costs would not be significantly reduced as a result of ceasing operations in these particular countries, and the calculation therefore overstates potential savings.

agriculture (out of six operations); and Spain, two for agriculture and two for education (also out of six operations).

Table VI: SECTOR DISTRIBUTION OF LENDING IN HIGHER INCOME COUNTRIES a/

(number of operations)

	FY64-68	FY69-73	FY74-78
Power and water supply	17	15	4
Transportation	17	13	9
Telecommunication	2	2	2
Industry and DFC	6	10	16
Total	42	40	31
Agriculture	3	11	20
Education	-	8	9
Population	-	1	-
Total	3	20	29
Unidentified	-	-	5
Grand Total	45	60	65

a/ Including past borrowers in FY64-68

12. As far as future lending to the high-income countries is concerned, the existing lending programs show only a small increase from $1,251 million of lending in FY69-73 to $1,291 million in FY74-78, so that the share of the higher income countries in total IBRD lending will decline further from 14 to 9 percent in the respective periods. Perhaps a more relevant measure of Bank involvement in the higher income countries is the trend in the amount outstanding, including undisbursed: this is projected to increase in absolute terms from $2.2 billion at the end of FY73 to $2.9 billion at the end of FY78. On the other hand, the outstanding would decline as a proportion of the Bank

total from 15.2 percent to 12 percent respectively. The number of operations in the higher countries is expected to remain at about its current level, thus accounting for about 11 percent of total IBRD operations. The continued decline in the share of higher income countries in total IBRD lending reflects the phasing out of operations in New Zealand, Finland, Iceland and Ireland. No further operations are planned in New Zealand and the last operations in the three other countries will total less than $70 million and two of these countries will be making net repayments to the Bank.

13. Of the possible major borrowers in the period FY74-78, Argentina and Spain would be the largest ones, with Israel, Greece and Venezuela also with potentially sizeable borrowing programs. Of these countries, Spain and Israel are well on their way to becoming industrial exporters and have excellent access to capital markets. The case for further substantial lending to these countries should be carefully reviewed in order to determine whether the diminishing macroeconomic case for lending is outweighed by a sufficiently high degree of influence which Bank lending could have on the strengthening of especially important sectors. The situation of Cyprus and Singapore is probably similar. As for Argentina, the program is acknowledged to be quite tentative, since its effectiveness and viability will depend on the new Government's decision to institute a stabilization program and basic economic reforms. The Bank lending program could be an important support for such an effort but, if it was successful, Argentina's ample resource base should allow it within a relatively short time to cover the bulk of its external financing requirements from private sources. Although the case of Uruguay offers some similarities, the smaller size of the economy and the

constraint which this imposes upon industrialization probably leave room for a substantial Bank role, as long as the basic conditions for Bank lending, outlined in the last review by Management, are met. The case for lending to Venezuela rests largely on institutional grounds, so that Bank financing can help to buttress the diversification effort; because Venezuela faces no significant foreign exchange constraint, however, Bank lending, as now proposed, is to be limited in amount. The case of Trinidad and Tobago has a number of similarities with that of Venezuela, and the broad objectives of the program are comparable, although with more emphasis on helping the authorities cope with the long-range structural unemployment problem.

Table VII: LENDING TO HIGHER INCOME COUNTRIES, FY74-78

A. Countries with Phase Out Programs		Outstanding end FY73 a/	Commitments FY74-78	Repayments FY74-78	Outstanding end FY78 a/
New Zealand	72	98	-	45	53
Finland	74	155	20	87	88
Iceland	75	25	6	5	26
Ireland	74	98	42	12	128
Total		376	68	149	295
B. Others					
Israel	75	170	150	58	262
Greece	75	114	135	33	216
Spain	75 77?	408	220	93	535
Cyprus	-	49	30	10	69
Singapore	-	118	90	31	177
Argentina		479	350	92	737
Venezuela		317	140	98	359
Trinidad & Tobago		65	43	11	97
Uruguay		79	65	37	107
Total		1,799	1,223	463	2,559
Total A & B		2,175	1,291	612	2,854

a/ Including undisbursed.

IV. Pros and Cons of Lending to Higher Income Countries

14. The reasons for lending to countries within the higher income range are of course based on an assessment of the economic situation and capital requirements of each individual country. Each country has special features which distinguish it from others within the higher income range. Nevertheless, there are a number of features in the rationale for lending which are common to several or most of these countries.

15. Among these considerations are the following:

a. The Bank can be a lender of last resort for countries with special political or geographic problems which inhibit their access to market sources of finance (Cyprus, Finland and Iceland) or with special adjustment problems which have increasedtheir need for long-term development finance (Ireland).

b. The Bank can play a role in helping to reconstruct economies depleted by years of political problems and economic mismanagement (Argentina and Uruguay are possible examples). Part of this role includes improving the profile of external debts with excessively short average maturities. Clearly, such a role can only be played if the government concerned is undertaking a major effort in the same direction.

c. For a number of higher income countries the objective of IBRD lending is to achieve reform or the strengthening of institutions in strategic sectors where neglect would be detrimental to the country's long-term development. Lending to agriculture and education in Spain or to export sectors in Argentina are examples of this kind.

16. A more general consideration is the effect upon Bank and IDA finances of a continuing relationship with the higher income countries. First, it is possible that the attractiveness of Bank bonds to investors is enhanced by the relatively high share in the Bank portfolio of loans to countries with a high degree of creditworthiness. As of the end of FY72, 26 percent of the IBRD portfolio - loans disbursed and outstanding net of sales and participations - was in higher income countries, including past borrowers. Second, and more important, borrowers are likely to become contributors to IDA in the future. While the Bank has carefully avoided giving higher income borrowers the impression that a direct link exists between present Bank lending and the expectation of future borrowing by the Bank or contributions to IDA, nevertheless it is probably true that the continuation of some lending to higher income countries will increase their disposition to become lenders and contributors. Of the higher income countries which are active borrowers from IBRD, Finland is a full Part I member of IDA and Iceland became a Part I member for the Third Replenishment. New Zealand made a special contribution to the Third Replenishment and has decided to become a Part I member for the Fourth Replenishment. Ireland and Spain made special contributions to the Third Replenishment and are expected to do so again for the Fourth Replenishment. Israel has indicated its intention to make a special contribution to the Fourth Replenishment and there is a more remote possibility that Greece can also be persuaded to do so. On the other hand, Venezuela, Singapore, Uruguay, and Malta are not members of IDA. Argentina has not released the 90 percent portion of its subscription to IDA in convertible currencies nor has it made a special contribution to IDA. Cyprus and Trinidad and Tobago have also made no releases from their subscriptions.

17. Nevertheless, there are some important considerations suggesting reduced lending to higher income countries. They are:

a. The lending program will still require a substantial proportion of IBRD staff resources, particularly in sectors of special importance to the poorer countries. Moreover, as shown above, the lending programs for the higher income countries for the period FY74-78 emphasize sectors - agriculture and education - where the needs of developing countries are greatest and in which manpower constraints are especially relevant. Agriculture will account for one-third of the operations so far identified. Education will also continue to be important.

b. In view of the past concentration of IBRD lending in a few countries, it would seem desirable to have a somewhat greater emphasis on other IBRD clients over FY74-78 than was achieved in FY69-73. Almost 60 percent of the increase in Bank lending in FY69-73 was concentrated on six countries: Turkey, Colombia, Iran, Brazil, Yugoslavia and Mexico. Excluding IBRD lending to India and Pakistan, which reflected special factors, the increase in IBRD lending to the remaining developing countries was little different from the increase in lending to the higher income countries.

c. As shown in the analysis at the conclusions of sections II and III above, the structure and prospects of the economies of most of the higher income countries are such that most of them can reasonably be expected to meet a growing proportion of their external capital requirements from market sources.

Table VIII: PATTERN OF IBRD EXPANDED LENDING FY69-73

	FY64-68		FY69-73		% Increase
	$ mil.	% Share	$ mil.	% Share	FY69-73
The largest six borrowers a/	1,148	27	3,915	44	241
Higher income countries	795	19	1,251	14	57
India/Pakistan	325	8	356	4	10
Other	2,028	47	3,344	38	65
Total IBRD borrowers	4,296	100	8,866	100	106

a/ In FY69-73

V. Possible Policies

18. There are evident difficulties in striking a balance between these various considerations. Despite the fact that a criterion of $1,000 GNP per capita has been used for the foregoing analysis, it is clear that no operational policy could be formulated which depends exclusively on such a yardstick. The Articles of Agreement predicate the eligibility of countries, among other things, on their access to external finance at reasonable terms, and not on their level of income, although, as was noted in para. 7, there is a high degree of correlation between the two measures. Therefore, the need of particular higher income countries for Bank assistance will necessarily continue to be based on the economic evaluation of each individual country. Another course of action, based on a uniform yardstick such as per capita income, would inevitably arouse a strong reaction not only from today's higher income countries (including a number of European countries, Argentina and Venezuela), but from others (such as Brazil, Mexico and Yugoslavia) who would feel potentially affected by such a policy. Therefore, the circumstances of each country have

to be analyzed carefully, although it is no doubt desirable - as a general principle - for the Bank to limit staff involvement in most or at least several of the higher income countries. Various possible policies are analyzed below. These possibilities include no change in present lending programs, a higher rate of interest and/or shorter maturities for these borrowers, a limit on the amount of lending, changes in lending techniques and streamlining of staff deployment for work on these countries. Except for the first, these policies are not mutually exclusive, and can be taken individually or as a package.

19. No action. It is possible that economic uncertainties in Argentina and Uruguay, the slowness of project implementation in Venezuela, and the proposed review of Spain, will by themselves lead to a substantial cut in lending to some higher income countries. However, there is the risk that substantial staff time may already have been spent on projects in these countries; moreover, the "no action" course leaves substantial lending programs in countries such as Israel and Greece, which probably will face a rapidly diminishing need for Bank financing and already have substantial access to the capital markets.

20. Interest rate and maturity policy. One possible way for the Bank to reduce its operations in higher income countries would be to discourage demand for assistance by charging a higher interest rate on loans to them. Since the standard IBRD lending rate is usually below the cost of alternative sources of external finance, a higher rate would reduce or remove an incentive to borrow from IBRD. To the extent that the higher rate failed to reduce the demand for Bank lending, the extra income to the Bank would at least cover much of the

charge which lending to higher income countries represents on the IBRD budget.[1/] However, since the purpose of the higher rate would primarily be to discourage borrowing, the financial advantages for the Bank ought not to be a major consideration in favor of such a policy.

21. Such a policy was in effect between 1965-67 when a group of "market eligible" countries[2/] were charged rates up to one percent higher than the standard IBRD lending rate (then between 5.5 percent to 6.0 percent). A "market eligible" country was defined as one, "which normally covers a substantial part of its external needs by borrowing on the capital markets of the world." The policy was terminated in 1967, after Italy, Japan and South Africa had ceased to be claimants for new loans from the Bank.

22. Another possibility, which could be combined with a higher interest, is that of shorter maturities for loans to higher income countries. As is shown in the table below, the average maturity of Bank lending to the higher income countries was not much different from the average for other Bank borrowers.

1/ The effect on IBRD income comprises both the increase in income from loans and the decrease in interest on borrowings. Assuming that IBRD started as of FY74 to lend 10 percent of its total loans at a rate one percent above the standard rate, then by FY83 IBRD income would be $21 million higher than if all lending continued at the standard rate. This would be equivalent to 7 percent of total estimated income in FY83 and would cover 13 percent of projected IBRD budget expenses in that year. The increases in income would of course be lower depending on how it affected demand for loans from the Bank.

2/ The seven loans on which the higher rates applied were to Japan, New Zealand, Italy and South Africa.

Table IX: AVERAGE TERMS[a/] OF IBRD LENDING

	Higher Income Countries			Other Countries
	Life of Loan Years	Grace Included Years	Rate of Interest Percent	Life of Loan Years
FY69	22	5	6.5	23
FY70	18	3	7.0	23
FY71	21[b/]	4	7.25	22
FY72	17	4	7.25	20
Average	20	4	7.0	22

a/ Weighted by the volume of lending.
b/ Average maturities in this year were influenced by two large loans to Argentina.

23. There are a number of difficulties with altering financial terms to higher income borrowers. First, it is an indirect approach, the effects of which cannot be predicted: since it attacks the demand for funds - the availability of which is not the major constraint - it may well be that the size of operations will be reduced, but that the staff input - the key variable - will not diminish much. Second, some general yardstick or starting point would have to be established for countries subject to the policy: Unless the number of countries affected is very small (for example, those for which new lending will in any case be phased out in FY74-78), there is likely to be a strong adverse reaction to the policy. This reaction could well endanger proposals for an SDR Link or a Third Window by strengthening the opposition of a few large Latin American countries. Finally, the establishment of one differential interest rate could conceivably create pressures for other differential rates below the standard lending rate: however, this is unlikely to be a major consideration. An offsetting factor, again not of great significance, would be the additional income to the Bank - estimated above - arising from a special lending rate to the higher income countries.

24. Quantitative limits on lending. One possible course of action for IBRD would be to set a quantitative ceiling on the amount of lending to higher income countries as a group. For example, lending of about $200 million a year to the higher income countries would involve a reduction of about one-fifth in the scale of lending currently contemplated. This objective would require extending "phase out" programs to other higher income countries besides Finland, Iceland, Ireland and New Zealand. A number of countries could be candidates for such a phase out, beginning with Israel, Greece and Spain, which all have growing access to capital markets and are rapidly moving into industrial exports. A termination of lending in some or all of these countries by FY80 should be contemplated or at least a scaling down of commitments by up to $400 million over FY74-78 so that net lending (after taking account of repayments) would not increase, and would decline in the period FY78-80. While reducing net lending to some of the higher income countries is one way of saving on staff resources,[1/] this approach is open to the criticism that it tackels only indirectly the main constraint, namely the staff input.

25. Economizing staff. The major claim on Bank resources imposed by lending to the high-income countries consists of scarce manpower which has alternative uses. Conflicting demands for this staff are likely to emerge as Bank operations increase in the poorer countries and overall budgetary constraints develop. In devising policy options, therefore, it is necessary to find ways and means of economizing staff time devoted to these countries.

26. The following proposals should be considered in order to reduce the input of scarce manpower in the high-income countries.

1/ The footnote on page 13 points to the difficulty of quantifying the savings that might result from marginal reductions in lending to higher income countries.

a. The economic work on the high-income countries should be kept to the minimum necessary to sustain Bank operations. It is illogical to have similar institutional arrangements for economic and sector missions to these countries as to the poorer members of the Bank. Knowledge about many of these countries can be acquired by using the reporting system of the IMF or OECD. Therefore, it would seem appropriate to reduce the economic work program by eliminating any basic reports for these countries, mounting economic missions infrequently - say only once every four years - and deriving updating reports mainly from other sources. Among the possible exceptions to such guidelines might be the cases of Argentina, Venezuela and Uruguay, where a detailed review of economic policies is likely to be necessary in the foreseeable future in order to arrive at a satisfactory judgment on the context and conditions for Bank operations.

b. In terms of the sectoral composition of lending to the higher income countries, there is a dilemma. On the one hand, lending to priority sectors and for "socially significant" projects in agriculture, education, etc., implies that the claim on IBRD staff is exactly in those areas where manpower is already scarce. On the other hand, it would not be reasonable for IBRD to lend only to traditional sectors such as power and transportation if these are not the areas where IBRD can best contribute to the country's development prospects. There is the added consideration that it is for projects in traditional sectors (for example, power projects) that market sources of finance, including official export credits, are most readily available. Lending for sector programs might be one way of economizing on staff time while retaining an impact on institutional reforms in a country. If staff time cannot be reduced in this way, this would provide a powerful argument for a faster phase out of operations in the higher income countries.

c. It would also be appropriate to lighten the work for the review of programs for the higher income countries. Lending to these countries is meant to be for specialized needs and for temporary periods, with the Bank acting as a lender of last resort. Annual country program papers should not as a matter of course be prepared for individual countries.

27. Conclusions and Recommendations. The following is a summary of the main points which emerge from the preceding analysis and the lines along which action is recommended:

a. Although per capita income by itself is not a criterion for deciding whether or not the Bank should lend to a particular country, most - if not all - the countries which at present have a per capita GNP of more than $1,000, or can be expected to reach such a level (in constant prices) in the next five years, are likely to need Bank financing on a diminishing scale as they find increasing opportunities to obtain long-term financing in the capital markets. Indeed, this is already recognized in the Bank program for FY74-78. At the same time, there is no doubt a justification for continued lending to some countries where the Bank can help strengthen key sectors or institutions.

b. The main question is whether lending to some high income countries should be reduced more steeply than at present contemplated. The reasons for this question are (i) the relatively heavy staff involvement in these countries, especially in sectors such as agriculture and education where the priority for Bank staff involvement in other developing countries is greater, and (ii) given good management, the economic prospects for some of these countries are such that a more rapid phase-out of Bank operations may be justified than envisaged at present.

c. On balance, there is a case for reducing lending operations to the higher income countries at a faster pace than at present contemplated. The following steps are recommended:

i. Beginning at the end of the present decade, there would be a strong presumption against further Bank lending to any country which had by then reached a per capita GNP level, in 1970 dollars, of $1,000. In the interval, net lending to the countries likely to reach this target or to have surpassed it would gradually be reduced;

ii. The exceptions to the above rule would be based on a careful examination of the structural and institutional framework within the country, its external resource requirements, and the likelihood that these requirements might be met from non-Bank sources of finance at reasonable terms, consistent with the ability of the country in question, given good management, to service its external debt without unreasonable strain; and

iii. Within the requirements imposed by the above policies, efforts will be made to economize staff in the higher income countries. Among others, these actions will include a substantial reduction in country economic work and CPP preparation, and consideration, in appropriate cases, of program or sector lending.

Table 1: IBRD LENDING TO HIGHER INCOME COUNTRIES, FY59-78 1/

(Amounts $ million and no. of operations)

	Per Capita Income			1959		1960		1961		1962		1963		1964		1965		1966		1967		1968		1959-63		1964-68	
	1960	1965	1970	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.
Denmark	2,190	2,710	3,190	20	1	-	-	-	-	-	-	-	-	25	1	-	-	-	-	-	-	-	-	20	1	25	1
Norway	1,920	2,400	2,860	-	-	20	1	25	1	-	-	-	-	25	1	-	-	-	-	-	-	-	-	45	2	25	1
Australia	2,090	2,440	2,820	-	-	-	-	-	-	100	1	-	-	-	-	-	-	-	-	-	-	-	-	100	1	-	-
New Zealand	2,210	2,520	2,700	-	-	-	-	-	-	-	-	-	-	40	2	-	-	63	2	-	-	-	-	-	-	103	4
Iceland	1,650	2,130	2,660	-	-	-	-	-	-	2	1	-	-	-	-	-	-	-	-	18	1	-	-	2	1	18	1
Finland	1,540	1,900	2,390	37	1	-	-	-	-	25	1	25	1	7	1	43	2	20	1	-	-	-	-	87	3	70	4
Austria	1,350	1,600	2,101	25	1	9	1	-	-	5	1	-	-	-	-	-	-	-	-	-	-	-	-	39	3	-	-
Israel	1,200	1,600	1,960	-	-	-	-	28	1	25	1	22	1	-	-	-	-	20	1	-	-	15	1	75	3	35	2
Japan	750	1,150	1,920	104	5	84	3	105	4	40	1	-	-	125	2	125	3	25	1	100	1	-	-	333	13	375	7
Italy	1,100	1,370	1,760	20	1	40	1	-	-	-	-	-	-	-	-	100	1	-	-	-	-	-	-	60	2	100	1
Ireland	960	1,140	1,360	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Argentina	910	1,040	1,160	-	-	-	-	49	1	95	1	-	-	-	-	-	-	-	-	-	-	70	2	144	2	70	2
Greece	570	810	1,090	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	1	-	-	13	1
Spain	550	790	1,020	-	-	-	-	-	-	-	-	-	-	33	1	65	1	40	1	-	-	50	1	-	-	188	4
Venezuela	780	930	980	-	-	-	-	-	-	45	1	-	-	85	1	44	2	58	2	15	1	-	-	45	1	202	6
Cyprus	530	640	950	-	-	-	-	-	-	-	-	21	1	-	-	-	-	-	-	3	1	-	-	21	1	3	1
Romania	450	570	930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Singapore	530	630	920	-	-	-	-	-	-	-	-	15	1	-	-	7	1	-	-	25	2	26	2	15	1	58	5
Trinidad & Tobago	710	770	860	-	-	-	-	-	-	24	1	-	-	-	-	-	-	-	-	14	2	-	-	24	1	14	2
Uruguay	820	790	820	-	-	7	1	-	-	-	-	19	1	-	-	13	1	-	-	-	-	-	-	26	2	13	1
Malta	410	450	810	-	-	-	-	-	-	-	-	-	-	8	1	-	-	-	-	-	-	-	-	-	-	8	1
South Africa	580	680	760	37	2	-	-	-	-	25	2	-	-	-	-	-	-	-	-	20	1	-	-	62	4	20	1
Total				243	11	160	7	207	7	386	11	102	5	348	10	397	11	226	8	195	9	174	7	1,098	41	1,340	45
Percent IBRD				35	37	24	23	34	26	47	38	73	18	43	27	39	28	27	22	25	20	21	16	34	28	31	22
Past borrowers 2/				206	10	153	6	130	5	170	5	0	0	175	4	225	4	25	1	120	2	0	0	659	26	545	11
Total excl. past borrowers				37	1	7	1	77	2	216	6	102	5	173	6	172	7	201	7	75	7	174	7	439	15	795	34
Percent IBRD				5	3	1	3	13	7	26	21	23	18	21	16	17	18	24	19	10	15	21	16	14	10	19	17
Memo: Total IBRD				703	30	659	31	610	27	822	29	449	28	810	37	1,023	39	839	37	777	46	847	44	3,243	145	4,296	203

	Per Capita Income			1969		1970		1971		1972		1973		1974		1975		1976		1977		1978		1969-73		1974-78	
	1960	1965	1970	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.	$M	No.
Denmark	2,190	2,710	3,190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Norway	1,920	2,400	2,860	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Australia	2,090	2,440	2,820	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New Zealand	2,210	2,520	2,700	-	-	-	-	16	1	8	1	-	-	-	-	-	-	-	-	-	-	-	-	24	2	-	-
Iceland	1,650	2,130	2,660	-	-	-	-	4	1	-	-	-	-	6	1	-	-	-	-	-	-	-	-	4	1	6	1
Finland	1,540	1,900	2,390	22	1	-	-	33	2	-	-	20	1	20	1	-	-	-	-	-	-	-	-	75	4	20	1
Austria	1,350	1,600	2,101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Israel	1,200	1,600	1,960	-	-	25	1	20	1	30	1	30	1	30	1	30	1	30	1	30	1	30	1	105	4	150	5
Japan	750	1,150	1,920	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Italy	1,100	1,370	1,760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	960	1,140	1,360	15	1	-	-	30	2	28	2	25	1	27	2	15	1	-	-	-	-	-	-	98	6	42	3
Argentina	910	1,040	1,160	107	2	60	1	152	2	-	-	-	-	110	2	60	1	60	1	60	1	60	1	319	5	350	6
Greece	570	810	1,090	-	-	20	1	39	2	25	1	23	1	30	2	30	2	30	2	25	2	20	2	107	5	135	10
Spain	550	790	1,020	-	-	37	2	103	2	50	1	50	1	60	2	80	2	80	1	-	-	-	-	240	6	220	5
Venezuela	780	930	980	51	2	-	-	35	1	28	2	-	-	15	1	50	3	25	1	25	1	25	2	114	5	140	8
Cyprus	530	640	950	12	1	5	1	5	2	12	2	2	1	10	2	9	1	4	1	3	1	4	1	36	7	30	6
Singapore	530	630	920	27	2	16	2	-	-	10	1	-	-	20	2	25	1	-	-	20	2	25	1	53	5	90	6
Trinidad & Tobago	710	770	860	11	2	-	-	3	1	2	1	21	2	4	1	15	2	5	1	10	1	9	2	37	6	43	7
Uruguay	820	790	820	-	-	6	1	22	2	11	1	-	-	10	1	15	2	10	1	20	2	10	1	39	4	65	7
Malta	410	450	810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Africa	580	680	760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total				245	11	169	9	462	19	204	13	171	8	342	18	329	16	244	9	193	11	183	11	1,251	60	1,291	65
Percent IBRD				18	13	11	13	24	24	10	18	9	10	16	18	13	15	9	8	6	8	5	8	14	15	9	11
Memo: Total IBRD 3/				1,399	82	1,580	69	1,921	78	1,966	72	2,000	82	2,150	100	2,450	105	2,750	120	3,100	130	3,500	135	8,866	391	13,950	590

1/ The countries included in this table as 'higher income' countries are those which either had already attained a per capita income level of $1000 in 1970 (according to the World Bank Atlas) or can be expected to reach that level by FY78.

2/ Countries to which lending had ceased by FY69 - Denmark, Norway, Australia, Austria, Japan, Italy and South Africa.

3/ Figures for FY74-78 for total IBRD are consistent with IBRD financial projection assumptions.

Policy Planning & Program Review Department
March 14, 1973

Table 2: SOCIAL AND ECONOMIC INDICATORS FOR SELECTED HIGHER INCOME COUNTRIES

	GNP Per Capita	Value Added % GNP Agri.	Value Added % GNP Indus.	Employment % in Agriculture	Unemployment (percent)	Pop. Growth rate	Infant Mortality Rate	Pop. per Physician	Per Capita cal. supply % Requirements	Per Capita protein	Literacy rate	School Enrollment Ratio Primary	School Enrollment Ratio Secondary	Passenger cars per 1,000
New Zealand	2,700	..	..	13.1	1.6	1.7	16.9	633	..	..	..	107	56	316
Iceland	2,660	6.6	25.1	12.7	0.8	1.6	11.7	738	..	99	..	101	80	200
Finland	2,390	5.0	35.2	24.0	1.7	0.6	14.0	978	109	90	..	98	72	152
Israel	1,960	6.1	27.9	10.0	3.7	3.2	19.0	400	119	92	..	94	56	52
Ireland	1,360	15.4	28.7	30.8	7.5	0.4	20.6	963	130	96	98	95	54	134
Argentina	1,160	11.8	36.6	15.2	4.9	1.5	58.3	504	117	105	91	101	41	54
Greece	1,090	18.2	22.1	53.9	2.6	0.7	31.8	644	116	99	82	95	53	25
Spain	1,020	14.4	31.5	30.2	1.5	1.1	27.8	755	110	80	94	91	38	71
Venezuela	980	7.7	51.7	25.0	7.0	3.5	46.0	1,100	97	60	81	80	35	52
Singapore	920	3.5	15.4	4.0	4.7	2.4	24.6	1,519	..	63	75	90	40	71
Trinidad and Tobago	860	8.4	51.9	20.0	13.0	2.1	40.0	2,310	98	64	90	95	49	66
Uruguay	820	11.8	27.8	16.7	7.6	1.3	53.9	1,040	112	91	91	95	69	70
Median	1,125	8.4	28.7	19.0	4.2	1.5	26.0	859	112	91	90	95	53	69
Reference comparison/a	345	26.7	23.5	41.0	11.0	3.0	64.0	4,474	86	50	70	99	20	23

Note: Data on GNP relate to period 1966-70. Population growth rate is for the period 1960-70. Other data generally relate to latest year available in UN reports.
/a Reference comparison relates to the median of all countries with per capita income of $300-450 (1970 Atlas).

	Exports Growth Rates a/	Exports % GNP	Current account Balance % GNP	Debt service ratio	Private net long term flows % total net capital flows	Private long term Borrowing % total inflows (DRS)	Structure of Debt $ M Private	Structure of Debt $ M Bilateral Official	Structure of Debt $ M Multi-lateral	Total	Private %	IBRD % Total /b Inflows (DRS)	IBRD % Total /c Inflows	No. of months of Imports Purchasable by Reserves
New Zealand	6.4	24.1	-0.5	5.7	58.6	74	787	63	96	946	83	40.3	11.8	2.8
Iceland	20.0	39.3	-2.9	7.0	39.3	58	55	24	29	107	51	53.5	14.3	3.5
Finland	9.1	44.4	-6.3	4.0	158.9 d/	81	730	146	152	1,028	71	62.2	4.0	2.3
Israel	12.8	24.4	-6.7	17.2	24.2		1,723	335	107	2,173	80	...	0.4	16.8
Ireland	8.0	33.8	-0.3	1.4	79.3	87	447	167	58	671	67	7.5	0.8	5.6
Argentina	8.5	8.2	1.2	24.7	58.7	64	1,751	464	699	2,914	60	23.3	13.5	3.4
Greece	13.2	10.4	-4.2	4.4	90.7	65	806	253	169	1,228	66	6.4	0.9	2.1
Spain	18.9	12.8	-1.2	2.6	91.2	48	961	741	334	2,036	47	23.5	12.7	7.2
Venezuela	6.3	35.7	-0.6	2.3	61.2	44	578	120	450	1,143	50	51.7	10.6	7.3
Singapore	16.0 e/	132.4	-12.8	0.3	95.6	7	53	93	153	302	18	45.2	13.3	7.6
Trinidad & Tobago	5.6	72.8	-4.8	1.9	92.2	45	41	22	43	107	38	37.8	4.6	1.5
Uruguay	7.8	14.6	0.7	17.8	230.8 d/	60	170	114	111	394	43	32.5	24.6	8.5
Median		29.1	-2.1	4.2	85.0	60	726	133	131	987	55	37.8	11.2	4.6
Reference comparison f/	9.1	15.1	-8.0	10.3	52.9	12	146	536	464	1,147	11	25.2	13.5	2.3

Note: Structure of Debt data relate to December 1971. Imports purchasable relate to period 1970-72. All other data relate to period 1966-70.
a/ Goods and nonfactor services growth in value. For New Zealand, Finland, Israel and Ireland the growth rate is in volume.
b/ IBRD disbursements as a proportion of total public and publicly guaranteed borrowings as reported in DRS.
c/ IBRD disbursements as a proportion of total inflows including in addition nonguaranteed borrowings, private direct investment and private transfers.
d/ In the case of Finland and Uruguay ratios exceed 100% because net outflows of private capital exceed total net capital inflows.
e/ Current prices.
f/ Reference comparison relates to the median of all countries with per capita income of $300-450 (1970 Atlas), with the exception of the export growth rate which refers to all developing countries.

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(7-73)

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

POLICY REVIEW COMMITTEE

PRC/M/73-3a(r)

October 24, 1973

POLICY REVIEW COMMITTEE MEETING ON BANK LENDING TO HIGHER INCOME COUNTRIES

The attached minute of the Policy Review Committee on the paper Bank Lending to Higher Income Countries, has been amended to refer to the conclusion reached on the lending program for Finland. This is noted in paragraph 4 (c.v.)

Frank Vibert
Acting Secretary
Policy Review Committee

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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POLICY REVIEW COMMITTEE

PRC/M/73-3a(r)

October 24, 1973

MINUTES OF POLICY REVIEW COMMITTEE MEETING ON BANK LENDING TO HIGHER INCOME COUNTRIES

Attendance: Messrs. McNamara (Chairman), Knapp, Aldewereld, Baum, Chadenet Chenery, Alter, Cargill, Chaufournier, Nurick, Haq, Husain, Votaw, Blaxall, Kuczynski (Secretary)

1. The meeting of the Policy Review Committee was held on July 17, 1973 under the chairmanship of Mr. McNamara.

2. The discussion initially focused on a major implicit assumption of the paper, namely that there was a staff constraint within the Bank which meant that operations in the higher income countries competed for staff with operations in poorer, needier countries. While various views were expressed on this question, Mr. McNamara stated that over the longer run, there need be no staff constraint for the urgent tasks that the Bank must carry out.

3. The meeting agreed that there were enough good reasons for the Bank to phase out lending to countries which could obtain their external capital requirements at reasonable terms in the capital markets. The influence which the Bank could have on the modernization of such economies was in any case negligible. There was general support for the notion expressed in the paper that the $1,000 per capita GNP benchmark should be regarded as no more than a point of departure for more rigorous analysis of higher income countries. A country could well reach such a level and still have serious distortions in its economy and limited access to external capital markets.

4. The following decisions were reached at the conclusion of the meeting:

a. It was not desirable to limit lending through indirect means, such as a higher interest charge for some countries. Nor was it appropriate to attempt to organize program loans for these countries as a means of economizing staff involvement: on the contrary, lending to these countries probably required substantial staff time because our major contribution was institutional.

b. It was agreed that economic work on the higher income countries should be reduced to a level compatible with operational needs for information on or technical assistance to those countries.

c. On the question of proposed lending to individual countries, it was agreed that:

   i. there should be no further lending to New Zealand and that lending to Iceland and Ireland should be phased out by FY74 and FY75 as presently proposed in the five-year lending program.

   ii. lending to Israel will be phased out by FY75. The EMENA Region would prepare a short note on the Israel program.

   iii. lending to Spain would also be phased out, with the last loan in FY76 or perhaps FY75. The lending program for Spain was due for review in the near future.

   iv. it was agreed that lending to Greece should be continued for the time being, but in sectors where the Bank could make a contribution to the resolution of the main structural imbalances in the economy. The proposed loan for the DFC would be the last one for that institution.

   v. lending to Finland would also be phased out, probably after the pollution control project planned for FY74 or early FY75.

   vi. the programs for the remaining countries (Cyprus, Singapore, Argentina, Venezuela, Trinidad and Tobago, and Uruguay) would be subject to the normal CPP reviews. The proposed review of the Bank Group program FY74-78 would include recommendations on the size of the lending programs in those countries. In addition, the Program Review Division would submit recommendations to Management on the size of the lending programs in these countries for FY75 and FY76 before the end of FY74.

d. The Program Review Division would prepare a review of the economic and sector work program in Greece and in the six countries mentioned above in c(vi).

Frank Vibert
Acting Secretary
Policy Review Committee

cc: Those present