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MANAGING COMMITTEE EXC/MC 86

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THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

For MC information
RECORD

E-1227

EXC/MC86-~~28~~ 29

DATE: July 30, 1986

TO: The Members of the Managing Committee

FROM: Barber B. Conable BBC

EXT: 72001

SUBJECT: President's Travel in FY87

1. I wanted to keep you informed as to my tentative travel plans for FY87. I was most appreciative of your suggestions on this matter, and hope you will continue to give me the benefit of your counsel in the months ahead.

2. I am planning a European trip in late October or early November. I hope to visit the United Kingdom, Germany, France, and probably Italy. I also hope to make a brief trip to one or two Latin American countries before the end of the calendar year. I will make a one-day visit to Ottawa in early September, on a Friday.

3. In February or March of next year, I am tentatively planning to visit Japan and China. I expect that a trip to Africa will be scheduled for some time later in the spring or early summer.

4. If a clear need for a special trip (as, for instance, to Mexico) is indicated by the march of events, please do not hesitate to urge it on me. Regardless of plans, I intend to do what is necessary.

5. I was pleased that almost everyone recognized that these visits must have a very clear purpose in mind.

6. In the near future I will be asking the appropriate Vice Presidents concerned and External Relations to begin making the necessary arrangements for these trips.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

For MC information
RECORD

E-1227

EXC/MC86-28

DATE: July 29, 1986

TO: The Members of the Managing Committee

FROM: J. William Stanton, Counselor to the President JWS

EXTENSION: 72173

SUBJECT: Forthcoming Managing Committee Meetings

During the month of August, there will be no formal meetings of the Managing Committee.

The President's office will distribute papers "for information" only in the usual way. Please withhold any papers "for consideration" until further notice.

EXP: PARIS 1986-07-17 12:18

For MC information
RECORD
E-1227

EXC

1986 JUL 17 AM 7:28

CABLE SECTION

FACSIMILE TRANSMITTAL FORM

EXC/MC86-26

INTBAFRAD PARIS Date: July 17, 1986

NUMBER OF MESSAGE: .87.

NUMBER OF PAGES: ..6.

TO: Mr. Conable

FROM: Moeen A. Qureshi

SUBJECT: IDA 8th Replenishment - Meeting of Deputies, Paris, July 15-16, 1986

Attached are 5 pages of the Chairman's Summary Note issued during the above-mentioned meeting.

Please Distribute to:

Managing Committee

Mr. Timothy Thahane/SECCE (to be distributed to all ED offices)

Mr. Bhan, Acting Chief/FPAFSD, Financial Policy and Analysis Dept., Finance Studies Division

8 #2

RESTRICTED
July 16, 1986

IDA EIGHTH REPLENISHMENT

Meeting of Deputies

Paris, July 15 - 16, 1986

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Chairman's Summary Note

1. The third meeting to negotiate the Eighth Replenishment of the International Development Association (IDA8) was held in Paris on July 15 and 16, 1986, under the chairmanship of Mr. Moeen A. Qureshi, Senior Vice President - Finance, of the World Bank. The Deputies discussed some of the outstanding issues as a package -- IDA8 size, terms, and allocations.

2. With respect to size, Deputies were prepared to indicate, on the basis of the proposed contribution by the United States, and Deputies' burden-sharing concerns, that a basic IDA8 replenishment of $11.5 billion was attainable. However, they were generally of the view that a larger amount of resources would better facilitate the adjustment efforts and long-term investments that were required in many IDA countries. They agreed, therefore, to explore all possible ways of providing the Association with additional resources

so that the total amount available to the Association for lending during the period FY88-90 would amount to $12 billion or more. They agreed to work to achieve this objective by the time of the next meeting in September 1986.

3. Deputies reaffirmed their earlier agreement that high priority in IDA8 allocations should be given to Africa. They noted that the establishment of the African Facility, which was intended to be temporary, had raised the share of Africa in the combined total of IDA7 plus the African Facility to over 44 percent, compared to 34 percent in IDA7 itself. Recognizing that the problems faced by African countries were of a protracted nature and in need of sustained support by the donor community, Deputies agreed that all efforts should be made for the share of countries in Sub-Saharan Africa in IDA8 to be 50 percent if warranted by progress with their economic adjustment programs, and be as a minimum 45 percent. Deputies reiterated their concern that nominal allocations to the major blend countries not be reduced and agreed that the share of these countries in IDA8 should to the extent compatible with other objectives be around 30 percent. Recognizing the importance of individual country circumstances in determining the amount and character of IDA's lending program, they agreed that the Association's Board and management should continue to apply the necessary flexibility in determining actual allocations among various country groups.

87/4

4. The Deputies reiterated that financing of investment should continue to be the mainstay of IDA's lending activity. However, they gave strong recognition to the need for adjustment support and agreed that increased emphasis should be given to the use of IDA8 resources for adjustment lending. Accordingly, the Deputies noted that \$3 to \$3.5 billion of total IDA8 resources for lending might be used for adjustment support lending. They also agreed that enhanced collaboration between the Bank Group and the IMF should be actively pursued and that IDA8 resources in support of adjustment programs should, to the extent feasible, be used in conjunction with the IMF's Structural Adjustment Facility in eligible countries.

5. On the understanding that a change in IDA's credit terms would enhance the likely success of the IDA8 replenishment, Deputies agreed that they were prepared to recommend to the Association's Board of Executive Directors that the maturities of IDA credits in IDA8 and beyond be reduced to 40 years, but that grace periods be maintained at 10 years, and that provisions be introduced into the agreements for such credits that would make it possible to adjust the repayment terms along the lines set out in the Major Issues paper. While a number of Deputies were prepared to accept a reduction in maturities to 35 years, others felt that this would not be appropriate. Deputies agreed to consider this possibility again at their next meeting.

87/5

6. Deputies also discussed the environmental aspects of IDA's lending program. They urged that enhanced attention by management should be paid to environmental concerns. They welcomed the current initiatives being taken by management to address this situation, including the emphasis the Association was placing on the management of natural resources, i.e., ensuring that the environmental questions were fully considered in projects financed by IDA and that the issues of the management of natural resources would be integrated into country economic work.

7. On burden sharing, as indicated in the previous meeting, a Chairman's proposal was circulated on eliminating the unallocated gap in IDA7. Deputies whose IDA8 shares would be affected by these proposals generally reacted constructively to them; some had reservations about the extent of the suggested increases, but others were in favor of taking up at least their pro rata share of the unallocated gap. They agreed to submit these proposals to their authorities for consideration. Most Deputies noted that their positions on share increases would be affected by the willingness of other donors to maintain or increase their shares in a collective effort. Deputies noted that their positions could only be finalized when other outstanding issues concerning size, exchange rates, allocations, terms and conditions of IDA, had been clearly resolved.

87/6

8. Noting that a major issue from the previous meeting remained open - that of accomodating Japan's objective of achieving a harmonization in Bank and IDA shares as a condition for maintaining its IDA7 share in IDA8 - Deputies recognized that until this issue could be resolved the IDA8 negotiations would not be completed. It was agreed, therefore, that every effort would be made, with the assistance of management, to discuss this matter among governments and to resolve the harmonization issue, including procedural matters, by the time of the next meeting. The Deputy for Italy also indicated that her authorities would be prepared to consider a substantially larger share in IDA8 if an adjustment in Italy's IBRD share could be achieved.

9. On the question of the applicable exchange rate, Deputies generally favored continuing the practice adopted in IDA7 of using an average exchange rate. It was agreed that they would consider this again at the next meeting, focusing on averages over periods of three and six months ending on August 31, 1986.

10. Deputies stressed the importance of adhering to the timetable set for negotiations and concluding negotiations by the time of the Annual Meetings. It was agreed that the next meeting would be held on September 23-25, 1986, in Washington, D.C.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
June 20, 1986	Memorandum

Correspondents / Participants
To: Mr. Xu Naijiong, Executive Director
From: A.W. Clausen

Subject / Title
Technical Assistance for Asset/Liability Management

Exception(s)

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

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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THE WORLD BANK/IFC

EXC

ROUTING SLIP	DATE: June 13, 1986

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Managing Committee	
Members	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
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	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

The attached will be distributed as part of the forthcoming The Bank's World. But seperate copies of this supplement are available...if you would like more for p.r. purposes, then please let me know. Thank you.

FROM:	ROOM NO.:	EXTENSION:
F.Vogl	E827	72468

40th Anniversary Report

How It All Began

Contents

Despina Seal never left her desk when she joined the Bank May 17, 1946. Mrs. Seal was Secretary to Emilio Collado, Director of the Office of Financial and Development Policy and Deputy to the Assistant Secretary for Economic Affairs at the U.S. State Department. Their office was on the 10th floor of 1818 H Street, and when Mr. Collado became the first U.S. Executive Director for the Bank in March 1946, he arranged for the Bank to get space in the A building. Though Mr. Collado left in 1947, Mrs. Seal stayed for 34 years, retiring in May 1980. "I was always so proud to be part of the Bank," she says. Mrs. Seal was also Secretary to Robert L. Garner while he was President of IFC and for many years worked for the Executive Vice Presidents of the Corporation.

Photo by William Spidle

Introduction

The Mount Washington Hotel, Bretton Woods, New Hampshire, in 1944. A pre-conference document advised delegates: "Bretton Woods consists solely of the Mount Washington Hotel and its appendages. The hotel community is surrounded by the scenic White Mountain National Forest, which covers nearly one million acres and is dominated by Mount Washington, highest peak in the Presidential Range.

Photo courtesy of World Bank Archives

The proposals to found an international monetary fund and a world bank were radical ideas for the 1940s. Nothing like them had been tried before. The United Nations had a model for political cooperation in the League of Nations, but never before had organized international cooperation in trade and finance been attempted.

When the Bank opened for business June 25, 1946, the stage had been set for its emergence by two world wars separated by years of worldwide depression and financial chaos.

The United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, July 1 to 22, 1944 was called to prevent a recurrence of a Great Depression and to avoid a renewed breakdown in the international payments system after World War II.

According to a U.S. Treasury brochure written in 1945 explaining why the Bretton Woods institutions were needed, at the end of World War I most leading currencies in the world except the dollar were depreciated in terms of gold, and, by 1938, only eight countries were still on the gold standard, and most of these were using the dollar as currency.

During the Depression, many countries entered into restrictive currency practices, including competitive currency depreciation, blocked currencies, multiple currency devices (currencies that had different uses and values depending upon who owned them), and bilateral clearing agreements (a country's exports were paid for only as it imported commodities from the other country).

The total of exports and imports for all countries plummeted from $65 billion in 1929 to $26 billion in 1932 and for most of the 1930s remained at a level of $45 billion or less, the Treasury brochure explained.

Thoughtful individuals in Britain, the United States and the Allied nations agreed that new institutions would be needed after the war, but their views diverged on how an international monetary system should be organized.

More than two years of discussion preceded the presentation of a proposal to establish an International Monetary Fund. In the fall of 1941, John Maynard Keynes, then serving as a member of a Consultative Council formed to advise the Chancellor of the Exchequer on policy questions, circulated within the British Treasury a draft proposal to establish an "International Clearing Union," but the proposal was not published until April 1943. Meanwhile, in 1942, Harry Dexter White, Assistant to the U.S. Secretary of the Treasury, prepared the first draft of a "Suggested Plan for a United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations."

But, the Bank received scant attention. The first proposal for an "International Bank for Reconstruction and Development" was not put forward until November 1943, when the Secretary of the U.S. Treasury, Henry Morgenthau, sent a memorandum to the Allied and Associated governments entitled "Preliminary Draft Outline for a Proposal for a United Nations Bank for Reconstruction and Development." The draft engendered so little comment that, had the British not turned their attention to the proposal, it might never have been put on the Conference agenda.

Summing up Bretton Woods, the editors of *Fortune* wrote in the July 1945 issue of the magazine: "Bargain No. 1 was the fund... Yet most of the advantages of the fund lay with foreign nations and most of the disadvantages with the U.S. From the viewpoint of the U.S. the White Mountains (in New Hampshire) would have labored to bring forth a monetary mouse had it not been for Bargain No. 2.

"That was the creation of the World Bank. The U.S. advantage here was that, though the U.S. was to finance the bank heavily, the member nations were to cover the bank's loans with generous guarantees. In other words, the bank was the long-term collateral offered to the U.S. in return for the liquidity that the U.S. was introducing into the money markets of the world through the fund."

Recollections of First Staff Members

To commemorate the Bank's 40th anniversary, *The Bank's World* presents pictures, original writings, and speeches of some of the officials who attended the Bretton Woods Conference and who were responsible for the creation of these institutions. We also present recollections of some of the first staff members.

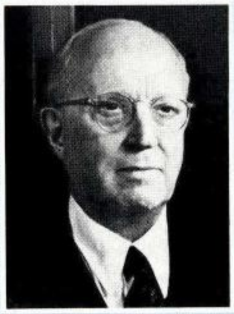
For those of you who are interested in further reading, these articles and speeches are excerpted from material in the Bretton Woods Collection in the Joint Library and in the Bank's archives. The Bretton Woods Collection is a compilation of material relating to the histories, policies and operations of the International Monetary Fund and The World Bank. The coverage extends from 1932 to the present.

We recommend also the comprehensive study of the Bank, *The World Bank Since Bretton Woods*, by Edward S. Mason and Robert E. Asher, published by The Brookings Institution.

We are grateful to Blanche Moore of the Joint Library, who organized and catalogued the Bretton Woods Collection; Bogomir Chokel, Archivist, in the Information, Technology and Facilities Department's Records Management Division; and to the staff of the Records Division, International Monetary Fund, for their assistance in gathering material for this issue.

(Editor's note: Marjorie Messiter, with Morallina George's assistance, produced this special section. A limited number of copies are available on request. Contact The Bank's World, *Room D-839, for copies.)*

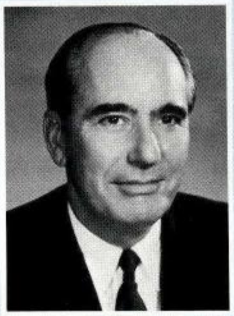
World Bank Presidents



Eugene Meyer
June 18–December 18, 1946

John J. McCloy
March 17, 1947–June 30, 1949

Eugene R. Black
July 1, 1949–
December 31, 1962



George D. Woods
January 1, 1963–
March 31, 1968

Robert S. McNamara
April 1, 1968–June 30, 1981

A.W. Clausen
July 1, 1981–June 30, 1986

Barber B. Conable
July 1, 1986–

Message from A.W. Clausen

"'Reconstruction' occupies the front seat in our formal title, yet for all but the first few years of our history it has been development that has come first. In fact, The World Bank has been continuously adjusting to the changing needs of its membership in ways that could never have been imagined when we opened for business in June 1946 with 38 member countries. Perhaps what this tells us most of all is that The World Bank—once a single institution, now a family of three—has never stood still.

"Foresight and flexibility must remain our watchwords. Much has been achieved in the developing countries, but there are still far too many people living in intolerable deprivation. As we continue our assault on poverty, we must as always remain guided by principles of sound economic and financial management, while energetically adapting our resources and skills to the changing global environment.

"The World Bank is privileged to have a frontline position in helping to meet the challenges of development. Despite harrowing problems and much unfinished business, the past 40 years have been marked by great advances —advances that are attributable, in the final analysis, to the efforts of the people in the developing world and their governments. It is this human element, of course, which is the most important resource of any country. If we are to see even greater economic and social progress in the next 40 years, then we in The World Bank and the rest of the international community must focus our efforts on this vital resource by helping citizens of the developing world realize their full potential."

Message from Robert S. McNamara

"Four decades ago a handful of wise men met at Bretton Woods in the midst of the most destructive and widespread war ever waged. Their task was to set about restoring and developing a world still in flames. The unique Bank they created was to be a key instrument in that effort. These men could not read the future, but they were clear about the kind of world they wanted: a more rational world, a more equitable world, a more prosperous world, a more decent world.

"That task continues today. And what the Bank's 40 years of experience confirms is this: that there is no inherent contradiction between its being a careful, hard-headed, and prudent investor of other people's savings, and at the same time being a socially responsible development institution, sensitive to the imperatives of fundamental human dignity.

"Development is, in the final analysis, about human aspiration, and the individual's realization of his or her own potential. What the billions of people throughout the developing world need and want is what everyone everywhere needs and wants: the well-being of those they love; a better future for their children; an end to injustice; and a beginning of hope.

"The World Bank—given the support of its member countries—can continue to be an invaluable catalytic source of that essential hope."

Message from Eugene R. Black

"When we of many nationalities and cultures were getting to know one another, staff and borrowers alike, there was a quiet excitement in the air; we felt we were pioneers in a new kind of cooperative enterprise. What we did was just as important as how much we did. And by "we" I mean the borrowers' people as well as the new and often wide-eyed Bank staff, for we achieved only as much as our borrowers achieved. My hope is that this early spirit of inquiry and cooperation can be sustained with the much greater pressure for volume activity that exists today. The Bank is only as good as the people who work at it and the relationships they develop with those who put the Bank's money to work."

Harry Dexter White's Role in Founding the Bank and Fund

The White Plan

Harry Dexter White served in various positions in the U.S. Treasury from 1934 until 1946. He was appointed Special Assistant to the Secretary of the Treasury in 1942, then Assistant to the Secretary from 1943 to 1945. In 1945 he became Assistant Secretary, and in 1946 became the first U.S. Executive Director of the International Monetary Fund. He resigned from the Fund April 8, 1947 and spent the last year of his life defending himself against charges that he was a spy. He died August 17, 1948 of a heart attack. He was 56.

The following are excerpts from his biography, Harry Dexter White *by David Rees (Coward, McCann and Geoghegan, 1973). Reprinted with permission from the Putnam Publishing Group.*

A week after Pearl Harbor, on December 14, 1941, Harry Dexter White was directed by Morgenthau to prepare a memorandum on the establishment of an inter-Allied stabilization fund. That fund, Morgenthau said, "should provide the basis for postwar international monetary arrangements."

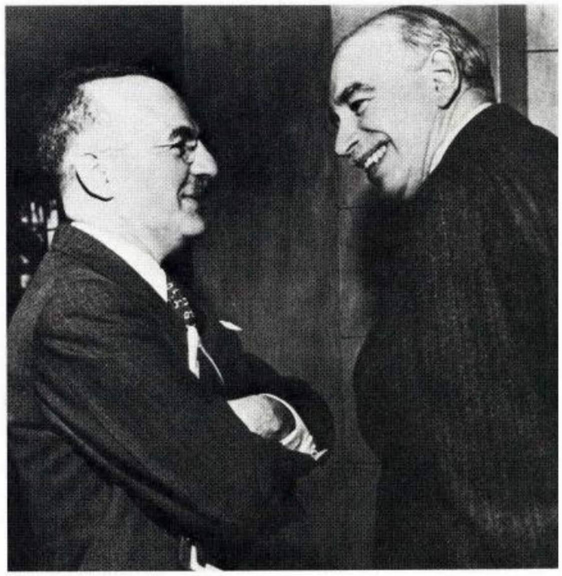
This directive, which put White in charge of Treasury planning for postwar international financial policy, in addition to his other responsibilities, led directly to the framing of the White Plan. In London, John Maynard Keynes and the British Treasury, as we shall see, were also working on proposed postwar financial arrangements. Eventually the planning that was begun in London and Washington during 1941-42 led to the twin institutions of the Bretton Woods Conference of July, 1944, the International Monetary Fund and the International Bank for Reconstruction and Development. Behind the upheavals of global war from Pearl Harbor to the Normandy landings lay, therefore, the frequently unspectacular work on these financial institutions which their authors assumed would have a considerable effect on the state of the postwar world.

As we have seen, White's career had in many ways been a preparation for this central part of his work in the Treasury. Fully aware of the wider implications of the Depression, his initial report to Professor Jacob Viner in 1934 had emphasized the "ultimate goal" of the maintenance and promotion of prosperity. Later, White's part in the events which led to the "Tripartite Declaration" of 1936 had involved him in the broader international aspects of recovery with this Anglo-French-American stabilization agreement.

White's subsequent work in connection with the operations of the American Exchange Stabilization Fund, the abortive Inter-American Bank, and the Cuban Financial Mission all pointed toward his being given responsibility for the "inter-Allied stabilization fund." His own remarkable talent, as some saw it, for acquiring and retaining responsibility inside the Treasury would not have been a bar to the added duties of preparing the draft of a new international stabilization fund.

Gyrations of Economy

Yet the underlying inspiration of the White Plan, as it soon came to be known, was one of more than merely rationalizing international financial arrangements for the postwar world. White and Morgenthau hoped to eliminate the gyrations of the international economy which, they held, had helped to lead to the Depression and in its train, the war. Governments, not



Harry Dexter White (left), Assistant to the Secretary of the U.S. Treasury, with John Maynard Keynes (right), Lord Keynes of Tilton, Chairman of the United Kingdom delegation.
Photo courtesy of World Bank Archives

bankers, should therefore direct monetary policy.

In his biography of Morgenthau, John Morton Blum remarks that the Secretary of the Treasury was proud of his role in the framing of the 1936 Tripartite Declaration. He visualized a broader and wider international financial accord which would preclude competitive devaluations and exchange controls. Moreover, Morgenthau looked forward to the continuing cooperation of the wartime allies and assumed that the United States, as the richest of the three wartime allies, would benevolently exercise the largest influence in the proposed new institutions. From the first, Professor Blum writes, Morgenthau "envisaged a kind of New Deal for a new world." Such a view, as we see, was implicit in the White Plan.

In a letter to President Truman in March, 1946, Morgenthau remarked

Some members of U.S. and USSR delegations. Standing (left to right): E.M. Bernstein, USA; A.P. Morozov, USSR; Dean Acheson, USA; A.A. Arutiunian, USSR; Harry D. White, USA; Jesse P. Wolcott, USA; N.F. Chechulin, USSR; F.P. Bystrov, USSR; I.D. Zolbin, USSR; M.M. Idashkin, USSR; Ansel F. Luxford, USA. Seated (left to right): Mabel Newcomer, USA; Edward E. Brown, USA; Fred M. Vinson, USA; Henry Morgenthau Jr., USA; M.S. Stepanov, USSR; Brent Spence, USA; P.A. Maletin, USSR; and Charles W. Tobey, USA. In their study of the Bank, *The World Bank Since Bretton Woods*, Edward S. Mason and Robert E. Asher indicate some of the explanations offered why the Soviet Union did not ratify the Articles of Agreement: "No veto power was given to any member, and the Fund quota relegated the Soviet Union to third place in number of votes in both the Fund and the Bank, after the United States and the United Kingdom. Fund membership required making available a substantial amount of information hitherto undivulged, and borrowing from the Bank involved exacting investigations. Furthermore, a general purpose of the Bank and Fund to promote private trade within freer markets was of little interest to the Soviet Union..."

Photo courtesy of IMF Records Division

that his primary objective during his years as Secretary of the Treasury was to "move the financial center of the world from London and Wall Street to the United States Treasury and to create a new concept between the nations of international finance." The Bretton Woods agreements, Morgenthau wrote to Truman, were to have been the "crystallization of that program," with the Fund and the Bank "instrumentalities of sovereign governments and not of private financial interests."

Proposed Fund, Bank

During the early months of 1942 White produced three drafts of a proposed Fund and a Bank which survive in his papers at Princeton. What seems to be the first draft is an undated typescript, written presumably at the beginning of 1942, entitled, "Suggested Plan for an United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations." Another typescript is dated March, 1942, and a third mimeographed draft was produced in April of that year.

White's proposals, as presented in the first undated draft, were both striking and idealistic, forming an unmistakable departure from prewar financial practices. The White Plan hoped to prevent "the disruption of foreign exchanges and the collapse of the monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery."

Solving these economic and financial problems would help to solve basic international issues. "If we are to avoid drifting from the peace table into a period of chaotic competition, monetary disorder, depressions, political disruption, and finally into new wars within as well as among nations, we must be equipped to grapple with these three problems and to make substantial progress toward their solution..."

The Fund and the Bank were thus to be the chief means of conducting postwar international financial relations. The Stabilization Fund would have resources of $5 billion, subscribed in gold, local currency and securities from member countries, with voting in proportion to national quota. National domestic financial politics would be subordinate to the operations of the proposed international institutions, as the Fund's resources would become available for countries facing temporary balance-of-payments difficulties.

In return for this added international liquidity, members of the Fund would have to surrender some sovereignty in dealing with the problems of adjusting their balance of payments. Exchange controls and the right to vary exchange rates would be circumscribed. There would be Fund supervision over domestic financial policies. No country could draw more than its quota from the Fund.

Ravages of War

The associated plan for the Bank—there was no provision for "development" as separate from "reconstruction" in this first draft—was to provide the "huge volume" of capital to repair the ravages of war and so smooth the transition from wartime to peacetime conditions. For this work of relief, reconstruction and recovery, the Bank would have a capital of $10 billion for long-term loans at low interest rates. It would also engage in activities to stabilize world commodity prices and to help alleviate impending economic depression by contra-cyclical lending.

While either agency could work without the other, they were clearly complementary, as the short-term work of the Fund would facilitate the restoration of long-term equilibrium by the Bank. Liberal commercial policies, involving a lowering of tariff barriers, were clearly a corollary of the new postwar world of the White Plan.

A Final First Draft

By May, 1942, White had completed a final first draft of his proposals for a Fund and a Bank. In forwarding these proposals to President Roosevelt on May 15, 1942, Morgenthau wrote enthusiastically that he was convinced "the launching of such a plan at this time has tremendous strategic as well as economic bearing. It seems to me that the time is ripe to dramatize our internal economic objectives in terms of action which people everywhere will recognize as practical, powerful and inspiring."

Later on the afternoon of the fifteenth, Morgenthau told White on the telephone that Roosevelt had liked his plan, but that he had told the President that it could only happen "if you get behind it." Then, Morgenthau would take the program to Cordell Hull. White considered this a "very good move."

With Morgenthau's access to Roosevelt and the 'New Deal' reputation of the Treasury, the State Department soon recognized the Treasury's primacy in postwar financial planning. But the State Department retained responsibility for commercial policy, and negotiations begun informally with the British in 1943 eventually led to the later General Agreement on Tariffs and Trade (GATT) and the proposed International Trade Organization.

On May 25, 1942, a Cabinet-level committee met in Morgenthau's room in the Treasury to consider the proposed financial plans. Besides White, representatives from the Treasury, the State Department, the Federal Reserve System and other agencies were present. There was general enthusiasm, and it was agreed to set up an interdepartmental subcommittee, the "American Technical Committee," to develop the financial proposals.

The Technical Committee

The Technical Committee first met on May 28, 1942, with White as its chairman, so centralizing both administrative and expert responsibility for the development of the proposed financial institutions in his person. Two other Treasury officials who sat on this committee, and who gave White much assistance in the development of the financial institutions were Edward M. Bernstein and Ansel F. Luxford. Bernstein was an economist of international repute. Luxford, who had worked in the Treasury since 1935, with one break, usually in the General Counsel's office, was to become the chief legal adviser to the American delegation at Bretton Woods, as well as an Assistant to the Secretary of the Treasury. (Bernstein would become the Fund's first Director of the Research Department; Luxford would become Associate General Counsel of the Bank.)

Conversations with Allies

At first White was inclined to press for a formal international conference as soon as possible. But in July, 1942, the Treasury accepted State Department advice to postpone such a gathering pending preliminary conversations with the British and a few other allies. That same month a draft of the White Plan was sent to London for Keynes to see. In August, a copy of the British plan for postwar financial operations, Keynes' "International Clearing Union" arrived in Washington for White. From this time on the two countries worked together on postwar financial planning. ■

40th Anniversary Report

Lord Keynes' Speech to the House of Lords

The Debate in Parliament

In his book, The Life of John Maynard Keynes, *R. F. Harrod wrote: "During the autumn (of 1943) White's proposals for an International Bank for Reconstruction and Development arrived in England. Stripped as it long since had been, of all exciting features, this document was an uninspiring one. The Bank had been dressed, with an eye to Congress, to look as orthodox as possible.*

"In March 1944 there was another series of meetings with the Dominions, which Keynes was unable to attend, being for a period under doctor's orders. The Agreed Statement of Principles was published in April, and received a very favorable press. Keynes expounded the theme to his old friends of the Craven-Ellis group in the House of Commons and also to another group of Conservative M.P.s. Apart from some rumblings from Mr. Boothby, these meetings did not lead him to anticipate opposition. But the debate in the House of Commons in May was a bitter disappointment. 'I spent seven hours in the accursed Gallery, lacerated in mind and body.'...

"Quite a different atmosphere prevailed in the House of Lords where the

debate was free from the pettiness displayed in the Lower House. Keynes himself made an admirable speech, which no doubt contributed to a better understanding . . ."

Excerpts from Keynes' address in the House of Lords, May 23, 1944:

My Lords, it is almost exactly a year since the proposals for a Clearing Union were discussed in your Lordships' House. I hope to persuade your Lordships that the year has not been ill-spent.

There were, it is true, certain features of elegance, clarity and logic in the Clearing Union plan which have disappeared. And this, by me at least, is to be much regretted. As a result, however, there is no longer any need for a new-fangled international monetary unit. Your Lordships will remember how little any of us liked the names proposed—bancor, unitas, dolphin, bezant, daric and heavens knows what. Some of your Lordships were good enough to join in the search for something better. I recall a story of a country parish in the last century where they were accustomed to give their children Biblical names—Amos, Ezekiel, Obadiah and so forth. Needing a name for a dog, after a long and vain search of the Scriptures they called the dog "Moreover." We hit no such happy solution, with the result that it has been the dog that died. The loss of the dog we need not too much regret, though I still think that it was a more thoroughbred animal than what has now come out of a mixed marriage of ideas. Yet, perhaps, as sometimes occurs, this dog of mixed origin is a sturdier and more serviceable animal and will prove not less loyal and faithful to the purposes for which it has been bred.

The New Plan

I commend the new plan to your Lordships as being, in some important respects (to which I will return later), a considerable improvement on either of its parents. I like this new plan and I believe that it will work to our advantage. Your Lordships will not wish me to enter into too much technical detail. I can best occupy the time available by examining the major benefits this country may hope to gain from the plan; and whether there are adequate safeguards against possible disadvantages. We shall emerge from this war, having won a more solid victory over our enemies, a more enduring friendship from our Allies, and a deeper respect from the world at large, than perhaps at any time in our history. The victory, the friendship, and the respect will have been won, because, in spite of faint-hearted preparations, we have sacrificed every precaution for the future in the interests of immediate strength with a fanatical single-mindedness which has had few parallels. But the full price of this has still to be paid. I wish that this was more generally appreciated in the country than it is. In thus waging war without counting the ultimate cost we—and we alone of the United Nations—have burdened ourselves with a weight of deferred indebtedness to other countries beneath which we shall stagger. We have already given to the common cause all, and more than all, that we can afford. It follows that we must examine any financial plan to make sure that it will help us to carry our burdens and not add to them. No one is more deeply convinced of this than I am. I make no complaint, therefore, that those to whom the details of the scheme are new and difficult should scrutinize them with anxious concern.

Major Advantages

What, then, are these major advantages? First, it is clearly recognized and agreed that, during the post-war transitional period of uncertain duration, we are entitled to retain any of those war-time restrictions, and special arrangements with the Sterling Area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

Second, when this period is over and we are again strong enough to live year by year on our own resources, we can look forward to trading in a world of national currencies which are interconvertible. For a great commercial nation like ourselves this is indispensable for full prosperity.

So far from an international plan endangering the long tradition, by which most Empire countries, and many other countries, too, have centered their financial systems in London, the plan is, in my judgment, an indispensable means of maintaining this tradition.

The Wheels of Trade

Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. The quotas are not so large as under the Clearing Union, and Lord Addison drew attention to that. But they are substantial and can be increased subsequently if the need is shown.

There is another advantage to which I would draw your Lordships' special attention. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor countries. This is one of the major improvements in the new plan. The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the inter-war years, namely the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing.

Orderly Arrangements

Fifth, the plan sets up an international institution with substantial rights and duties to preserve orderly arrangements in matters such as exchange rates which are two ended and affect both parties alike, which can also serve as a place of regular discussion between responsible authorities to find ways to escape those many unforeseeable dangers which the future holds...

Last week my noble friend Lord Bennett asked what assumptions the experts might be making about other phases of international agreement... If the noble Viscount meant that these proposals need supplementing in other directions, no one could agree with him more than I do. In particular, it is urgent that we should seek agreement about setting up an International Investment Institution to provide funds for reconstruction and afterwards. It is precisely because there is so much to do in the way of international collaboration in the economic field that it would be disastrous to discourage this first attempt, or to meet it in a carping, suspicious or cynical mood...

It is on this note of emphasizing the importance of furthering all genuine efforts directed towards international agreement in the economic field that I should wish to end my contribution to this debate. The proposals which are before your Lordships are the result of the collaboration of many minds and the fruit of the collective wisdom of the experts of many nations... I dare to speak for the much abused so-called experts. I even venture sometimes to prefer them, without intending any disrespect, to politicians. The common love of truth, bred of a scientific habit of mind, is the closest of bonds between the representatives of divers nations...

Do not discourage us. Perhaps we are laying the first brick, though it may be a colorless one, in a great edifice. If indeed it is our purpose to draw back from international cooperation and to pursue an altogether different order of ideas, the sooner that this is made clear the better; but that, I believe, is the policy of only a small minority, and for my part I am convinced that we cannot on those terms remain a Great Power and the mother of a Commonwealth. If, on the other hand, such is not our purpose, let us clear our minds of excessive doubts and suspicions and go forward cautiously by all means, but with the intention of reaching agreement."

40th Anniversary Report

To the Inaugural Session at Bretton Woods

Henry Morgenthau's Speech

Secretary of the United States Treasury, Henry L. Morgenthau Jr., was selected Permanent President of the Conference. Here are portions of his speech to the Inaugural Plenary Session, July 1, 1944, from Proceedings and Documents of the United Nations Monetary and Financial Conference.

You have given me an honor and an opportunity. I accept the presidency of this conference with gratitude for the confidence you have reposed in me. I accept it also with deep humility. For I know that what we do here will shape to a significant degree the nature of the world in which we are to live—and the nature of the world in which men and women younger than ourselves must round out their lives and seek the fulfillment of their hopes. All of you, I know, share this sense of responsibility.

We are more likely to be successful in the work before us if we see it in perspective. Our agenda is concerned specifically with the monetary and investment field. It should be viewed, however, as part of a broader program of agreed action among nations to bring about the expansion of production, employment and trade contemplated in the Atlantic Charter and in Article VII of the mutual aid agreements concluded by the United States with many of the United Nations. Whatever we accomplish here must be supplemented and buttressed by other action having this end in view.

President Roosevelt has made it clear that we are not asked to make definitive agreements binding on any nation, but that proposals here formulated are to be referred to our respective governments for acceptance or rejection. Our task, then, is to confer, and to reach understanding and agreement, upon certain basic measures which must be recommended to our governments for the establishment of a sound and stable economic relationship among us.

We can accomplish this task only if we approach it not as bargainers but as partners—not as rivals but as men who recognize that their common welfare depends, in peace as in war, upon mutual trust and joint endeavor. It is not an easy task that is before us; but I believe, if we devote ourselves to it in this spirit, earnestly and sincerely, that what we achieve here will have the greatest historical significance. Men and women everywhere will look to this meeting for a sign that the unity welded among us by war will endure in peace.

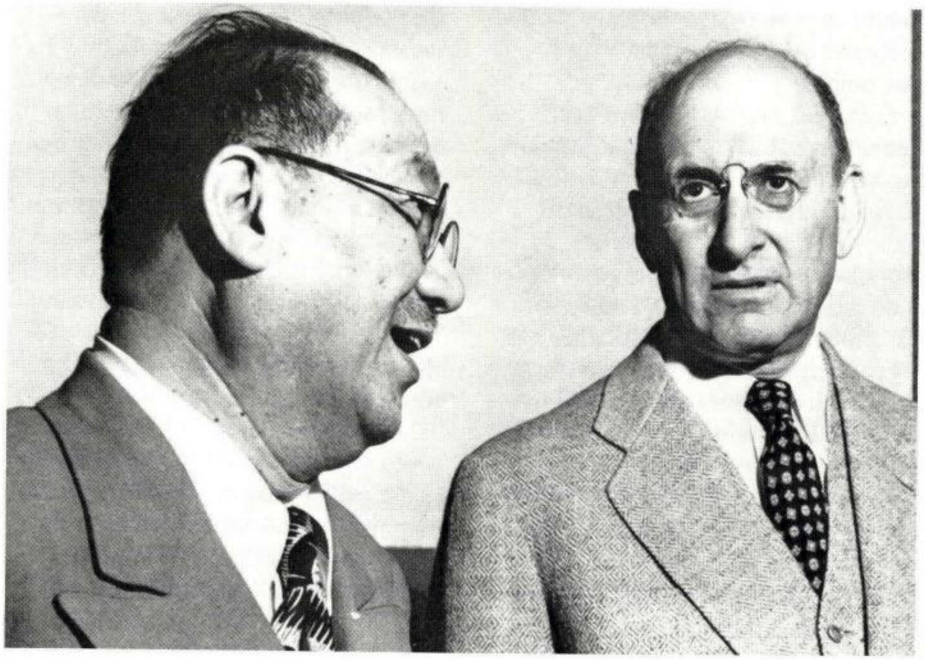
Through cooperation we are now overcoming the most fearful and formidable threat ever to be raised against our security and freedom. In time, with God's grace, the scourge of war will be lifted from us. But we shall delude ourselves if we regard victory as synonymous with freedom and security. Victory in this war will give us simply the opportunity to mold, through our common effort, a world that is, in truth, secure and free.

We are to concern ourselves here with essential steps in the creation of a dynamic world economy in which the people of every nation will be able to realize their potentialities in peace; will be able, through their industry, their inventiveness, their thrift, to raise their own standards of living and enjoy, increasingly, the fruits of material progress on an earth infinitely blessed with natural riches. This is the indispensable cornerstone of freedom and security. All else must be built upon this. For freedom of opportunity is the foundation for all other freedoms.

Economic Axioms

I hope that this conference will focus its attention upon two elementary economic axioms. The first of these is this: that prosperity has no fixed limits. It is not a finite substance to be diminished by division. On the contrary, the more of it that other nations enjoy, the more each nation will have for itself. There is a tragic fallacy in the notion that any country is liable to lose its customers by promoting greater production and higher living standards among them. Good customers are prosperous customers. The point can be illustrated very simply from the foreign trade experience of my own country. In the prewar decade, about 20 percent of our exports went to the 47 million people in the highly industrialized United Kingdom; less than three percent went to the 450 million people in China.

The second axiom is a corollary of the first. Prosperity, like peace, is indivisible. We cannot afford to have it scattered here or there among the fortunate or to enjoy it at the expense of others. Poverty, wherever it exists, is menacing to us all and undermines the well-being of each of us. It can no more be localized than war, but spreads and saps the economic strength of all the more favored areas of the earth. We know now that the thread of economic life in every nation is inseparably woven into a fabric of world economy. Let any thread become frayed and the entire fabric is weakened. No nation, however great and strong, can remain immune..."



U.S. Treasury Secretary and President of the Bretton Woods Conference, Henry Morgenthau Jr. (right), with unidentified delegate.

Photo courtesy of World Bank Archives

Wasted Wealth

All of us have seen the great economic tragedy of our time. We saw the world-wide depression of the 1930's. We saw currency disorders develop and spread from land to land, destroying the basis for international trade and international investment and even international faith. In their wake, we saw unemployment and wretchedness—idle tools, wasted wealth. We saw their victims fall prey, in places, to demagogues and dictators. We saw bewilderment and bitterness become the breeders of fascism, and, finally, of war...

We know now that economic conflict must develop when nations endeavor separately to deal with economic ills which are international in scope. To deal with the problems of international exchange and of international investment is beyond the capacity of any one country, or of any two or three countries. These are multilateral problems, to be solved only by multilateral cooperation. They are fixed and permanent problems, not merely transitional considerations of the postwar reconstruction. They are problems not limited in importance to foreign exchange traders and bankers but are vital factors in the flow of raw materials and finished goods, in the maintenance of high levels of production and consumption, in the establishment of a satisfactory standard of living for all the people of all the countries on this earth...

Revive Investment

In 1941, we began to study the possibility of international cooperation on a multilateral basis as a means of establishing a stable and orderly system of international currency relationships and to revive international investment. Our technical staff—soon joined by the experts of other nations—undertook the preparation of practical proposals, designed to implement international monetary and financial cooperation. The opinions of these technicians, as reported in the joint public statement which they have issued, reveal a common belief that the disruption of foreign exchanges *can* be prevented, and the collapse of monetary systems *can* be avoided, and a sound currency basis for the balanced growth of international trade *can* be provided, if we are forehanded enough to plan ahead of time—and to plan together. It is the consensus of these technical experts that the solution lies in a permanent institution for consultation and cooperation on international monetary, finance and economic problems. The formulation of a definite proposal for a Stabilization Fund of the United and Associated Nations is one of the items on our agenda.

But provision for monetary stabilization alone will not meet the need for the rehabilitation of war-wrecked economies. It is not, in fact, designed toward that end. It is proposed, rather, as a permanent mechanism to promote exchange stability. Even to discharge this function effectively, it must be supplemented by many other measures to remove impediments to world trade.

Reconstruction Loans

For long-range reconstruction purposes, international loans on a broad scale will be imperative. We have in mind a need wholly apart from the problem of immediate aid which is being undertaken by the United Nations Relief and Rehabilitation Administration. The need which we seek to meet through the second proposal on our agenda is for loans to provide capital for economic reconstruction, loans for which adequate security may be available and which will provide the opportunity for investment, under proper safeguards, of capital from many lands. The technicians have prepared the outline of a plan for an International Bank for Postwar Reconstruction which will investigate the opportunities for loans of this character, will recommend and supervise them and, if advisable, furnish to investors guaranties of their repayment.

I shall not attempt here to discuss these proposals in detail. That is the task of this conference. It is a task the performance of which calls for wisdom, for statesmanship, above all for good will.

The transcendent fact of contemporary life is this—that the world is a community. On battlefronts the world over, the young men of our united countries have been dying together—dying for a common purpose. It is not beyond our powers to enable the young men of all our countries to *live* together—to pour their energies, their skills, their aspirations into mutual enrichment and peaceful progress. Our final responsibility is to them. As they prosper or perish, the work which we do here will be judged. The opportunity before us has been bought with blood. Let us meet it with faith in one another, with faith in our common future, which these men fought to make free.

40th Anniversary Report

To Commission II on the Bank for Reconstruction and Development

Lord Keynes' Opening Remarks

At the United Nations Monetary and Financial Conference, Lord Keynes was named Chairman of Commission II on the Bank for Reconstruction and Development. He was appointed Governor of the Bank and the Fund for the United Kingdom in February 1946, but he, like Harry Dexter White, would not live to see the postwar world he helped to create. He died April 21, 1946.

Here are excerpts from his opening remarks to the Commission's first meeting July 3, 1944 from Proceedings and Documents of the United Nations Monetary and Financial Conference.

It is our hope that the institution of the Bank for Reconstruction and Development, to which this Commission is to devote its work, will serve the purpose of increasing the health, prosperity and friendship of the participating countries in two main respects.

In the first place, it will be authorised in proper cases and with due prudence to make loans to the countries of the world which have suffered from the devastation of war, to enable them to restore their shattered economies and replace the instruments of production which have been lost or destroyed. It is no part of the purpose of UNRRA (United Nations Relief and Rehabilitation Administration) to provide funds for reconstruction as distinguished from the necessary relief and rehabilitation in the days immediately following liberation. There is, therefore, at present a gap in the proposals of the United and Associated Nations which is not yet filled, and to fill which there is no proposal in view except the institution of this Bank. Yet this is a matter of the utmost urgency and importance where we should, therefore, press forward to reach agreement on methods and on details. We do not know the date of the complete liberation of the occupied countries of Europe and Asia. But we are now entitled to hope that it will be not unduly delayed. We should be bitterly failing in duty if we were not prepared for the days of liberation. The countries chiefly concerned can scarcely begin to make their necessary plans until they know upon what resources they can rely. Any delay, any avoidable time lag will be disastrous to the establishment of good order and good government, and may also postpone the date at which the victorious armies of liberation can return to their homelands.

I cannot, therefore, conceive a more urgent, necessary and important task for the Delegates of the forty-four nations here assembled. I am confident that the members of the Commission of which I have the honour to be the Chairman will devote themselves to their work in a spirit of full responsibility, well aware how much depends on their success.

A Second Primary Duty

It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But as soon as possible and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely, to develop the resources and productive capacity of the world, with special attention to the less developed countries, to raising the standard of life and the conditions of labour everywhere, to make the resources of the world more fully available to all mankind, and so to order its operations as to promote and maintain equilibrium in the international balances of payments of all member countries.

These two purposes deserve particular emphasis, but are not exclusive or comprehensive. In general, it will be the duty of the Bank, by wise and prudent lending, to promote a policy of expansion of the world's economy in the sense in which this term is the exact opposite of inflation. By "expansion" we should mean the increase of resources and production in real terms, in physical quantity, accompanied and facilitated by a corresponding increase of purchasing power. By "inflation" on the other hand, we should mean the increase of purchasing power corresponding to which there is no accompanying increase in the quantity of production. The Bank will promote expansion and avoid inflation...

Under the proposals to be brought before you, the Bank will be free to operate along three different lines.

A certain part of the Fund's subscribed capital will be called up and will be available for direct lending by the Bank for approved purposes in the currencies of the contributing members.

But the greater part of its subscribed capital will be held as a reserve fund with which to guarantee two other types of operations.

The first type of loan eligible for such guarantee will be loans for suitable purposes and on suitable terms issued through the ordinary channels of the investment market where on account of the risks involved there would be difficulty otherwise in placing the loan on terms which the borrowing country could afford to pay.

The second type of loan secured by the assets and subscribed capital of the Bank will also be placed through the ordinary channels of the investment market but will be offered on the Bank's behalf in its own name. The proceeds of such loans will then be relent by the Bank to borrowing countries on terms and for purposes to be directly agreed with them.

The proceeds of both these types of loans would be freely available for the borrower to make purchases in any member country, with due regard to economy and efficiency.

Let me now explain the nature of the proposed guarantee, for this is of a novel character which may be regarded as marking in a particularly significant way the international char-

The inaugural meeting of the Board of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development took place in March 1946 in Savannah, Georgia. Participants in the photo are (left to right) Fred M. Vinson, U.S. Secretary of the Treasury and the U.S. Governor for the Bank and Fund; Warren Kelchner, Chief, Division of International Conferences, U.S. Department of State; Jan Victor Mladek, Czechoslovakia's Chief of the Monetary Division, Ministry of Finance; Lord Keynes, Governor of the Bank and Fund for the United Kingdom.
Photo courtesy of IMF Records Division

'We have before us a proposal... conceived on sound and fruitful lines.' —Keynes

acter of the proposed institution.

It is evident that only a few of the member countries will be in possession of an investable surplus available for overseas loans on a large scale, especially in the years immediately following the war. It is in the nature of the case that the bulk of the lending can only come from a small group of the member countries, and mainly from the United States. How then can the other member countries play their proper part and make their appropriate contribution to the common purpose?

Precarious Days Ahead

Herein lies the novelty of the proposals which will be submitted to you. Only those countries which find themselves in a specially favoured position can provide the loanable funds. But this is no reason why these lending countries should also run the whole risk of the transaction. In the dangerous and precarious days which lie ahead, the risks of the lender will be inevitably large and most difficult to calculate. The risk premium reckoned on strict commercial principles may be beyond the capacity of an impoverished borrower to meet, and may itself contribute to the risks of ultimate default. Experience between the wars was not encouraging. Without some supporting guarantee, therefore, loans which are greatly in the interests of the whole world, and indeed essential for recovery, it may prove impossible to float.

Yet, as I have said, there is no reason in a case like this, where the interests of all countries alike, whether lenders or borrowers, or exporters, are favourably affected, why the unavoidable risks should fall exclusively on the lenders, for example, the investors or the government of the United States, if it turns out that they are the chief source of available funds.

The proposal is, therefore, that all the member countries should share the risk in proportions which correspond to their capacity. The guarantees will be joint and several, up to the limit of any member's subscription, so that the failure of any member to implement his guarantee will not injuriously affect the lender, so long as the Bank has other assets and subscriptions to draw upon, resources which will, according to our proposals, be of considerable dimension...

The bonds will be good for several different reasons. In the first place, they will have behind them the vast resources of the Bank available in gold or free exchange. In the second place, the proceeds will be expended only for proper purposes and in proper ways, after due enquiry by experts and technicians, so that there will be safeguards against squandering and waste and extravagance, which were not present with many of the ill-fated loans made between the wars. In the third place, they will carry the guarantee of the borrowing country; and this borrower will be under an overwhelming motive to do its best and play fair, for the consequence of improper action and avoidable default to so great an institution will not be lightly incurred.

A Fourth Safeguard

But there is also a fourth safeguard of great importance to the guaranteeing countries as well as to the lenders. There are two reasons for hoping that the guarantors will not find themselves under any insupportable or burdensome liability. In the first place, the guarantee will relate to the annual servicing of the loan for interest and amortisation. Its implementation will, therefore, be spread over a period corresponding to the term of the loan and cannot fall due suddenly as a lump sum obligation. In the second place, there is an interesting and essential feature of the proposals in the shape of a commission payable by the borrower in return for its guarantee. It is suggested that for long-term loans of the normal character this commission should be at the rate of 1 per cent per annum. This rate of commission should be the same for all members alike, for it would be a mistake, and worse than a mistake, to attempt the invidious task of discriminating between members and assessing their creditworthiness in what is really a mutual pool of credit insurance amongst a group acting in good faith—indeed in the old language of insurers consecrated by tradition, in the spirit of *uberrima fides*, of good faith, complete, abundant and overflowing...

Much to Work Out

Here are the broad outlines of the proposals which you will be asked to consider. There are other aspects and much detail for you to work out. For the Bank has not enjoyed so much discussion as has the Fund prior to this Conference.

But I believe that we have before us a proposal the origins of which we owe primarily to the initiative and ability of the United States Treasury, conceived on sound and fruitful lines. Indeed, I fancy that the underlying conception of a joint and several guarantee of all the member countries throughout the world, in virtue of which they share the risks of projects of common interest and advantage even when they cannot themselves provide the lump sum loan originally required, thus separating the carrying of risk from the provision of funds, may be a contribution of fundamental value and importance to those difficult, those almost overwhelming tasks which lie ahead of us to rebuild the world when a final victory over the forces of evil opens the way to a new age of peace and progress after great afflictions.

How the Bank Came to Be Called a Bank

Georges Theunis, a member of Belgium's delegation to the Conference serving under Camille Gutt, was Belgium's Minister of State, Ambassador at Large on special mission to the United States, and Governor of the National Bank of Belgium. The following is an excerpt from a speech he delivered as the Reporting Delegate for Commission II—the Commission concerned with the International Bank for Reconstruction and Development—to the Executive Plenary Session July 21, 1944, in which he explains how the Bank came to be called a bank.

"The creation of the Bank was an entirely new venture. Never, during the numerous international meetings which over a period of twenty-five years have studied all sorts of economic problems, was any thought given to an organization so considerable in its scope and so novel in its conception as that which has been the subject of your deliberations. So novel was it, that no adequate name could be found for it. In so far as we can talk of capital subscriptions, loans, guarantees, issue of bonds, the new financial institution may have some apparent claim to the name of Bank. But the type of shareholders, the nature of subscriptions, the exclusion of all deposits and of short-term loans, the non-profit basis, are quite foreign to the accepted nature of a Bank. However it was accidentally born with the name Bank, and Bank it remains, mainly because no satisfactory name could be found in the dictionary for this unprecedented institution."

The First Bank Loan: $250 Million to France

In May 1947, early in John J. McCloy's administration, the Bank approved the first loan—$250 million to finance a portion of France's foreign exchange needs for a long-term modernization program.

The overall requirements included: $106 million for equipment, $180 million for energy and $214 million for raw materials, totaling $500 million.

The items to be purchased included among others:

- *Equipment:* Ships ($20.5 million), civilian air transportation ($12 million), freight cars ($17 million), locomotives ($2 million), trucks ($.3 million), communications (radio and electric equipment, $1.9 million), harbors and waterways ($34 million), electrical equipment ($4 million), coal mining equipment ($5.5 million).
- *Energy Producing Materials:* Petroleum products ($60 million), coal ($120 million).
- *Raw Materials:* fertilizers ($16 million), copper ($30 million), tin ($14 million), synthetic rubber ($10 million), cotton ($35 million), jute ($10 million), fats (vegetable and animal fats for industrial use, $13.5 million) and chemicals ($20 million).

Though the requested loan amount was pared in half, the relative amounts for each category remained the same.

The Way We Were

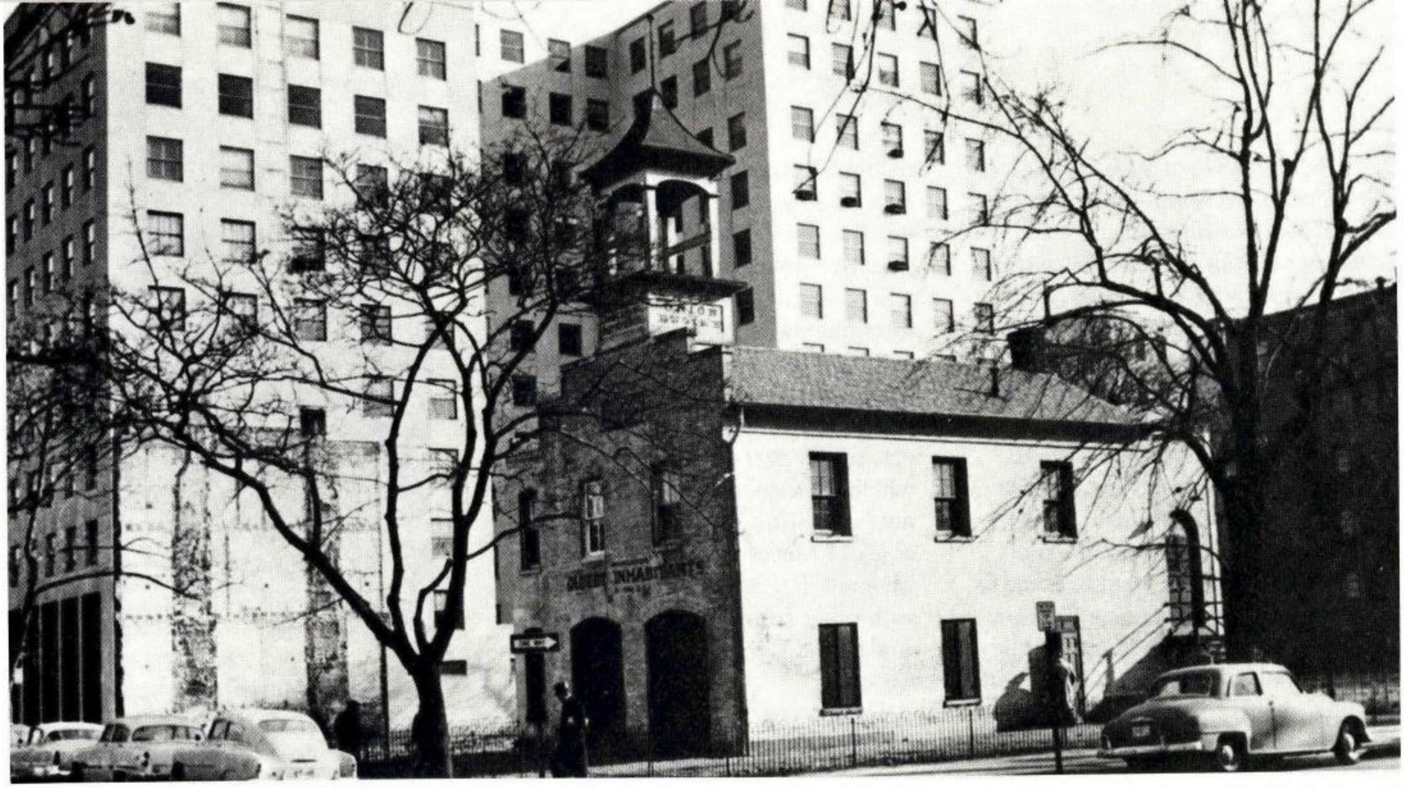
H Street was a noisy place in 1946. Trolley cars still ran along 18th and 19th streets and on Pennsylvania Avenue. 1818 H and its next door neighbor, the Hurley-Wright building (now the B building), were the only office buildings in the area. Between them was a brownstone housing the offices of the Columbia Lighthouse for the Blind. The rest of the neighborhood consisted of the Roger Smith Hotel on the northeast corner of 17th Street and Pennsylvania Avenue, private townhouses, apartment buildings, and on the site of the F building, a firehouse used as the meeting place of the Association of the Oldest Inhabitants of the District of Columbia. Once a year, the Oldest Inhabitants would pull an antique fire wagon—meant to be pulled by men, not horses—around the park.

That is how Edward J. Donovan, who retired in 1978 as Chief of the Office Support Services Division in the Administrative Services Department, remembers the neighborhood. Mr. Donovan wasn't sure he was going to be happy working with people from different countries when he signed on with the Bank May 22, 1946—one month before the official Bank opening—though any doubts he had were quickly swept away once he started work. "We simply didn't think about where people came from," he says.

Going Downhill

"The first year was very uncertain. Mr. Meyer (the first President) left in December. Then Mr. Smith, the Vice President, died, and things seemed to be going downhill in a hurry."

But the atmosphere improved when Mr. McCloy arrived. "There was a tremendous camaraderie. Everyone



In 1956, The Firehouse, Headquarters of the Association of the Oldest Inhabitants of the District of Columbia, was still standing on the site that would become the F building. The Firehouse was built in 1836. Photo courtesy of World Bank Archives

pulled together and things got done," says Mr. Donovan.

"We were all on a first-name basis, and I especially remember our Christmas parties—which the staff paid for. Professor Varvaressos, the Executive Director from Greece, was a wonderful man, and would entertain us by playing the piano and singing carols.

"At the annual picnic, Mr. McCloy and Mr. Black would choose the baseball teams. They were both very interested in the staff, and it was quite something to hear the bantering going on between the two of them.

"The word around town was," says Mr. Donovan, "that the Bank would pay tax-free salaries." That set the phones ringing all day and the secretaries who answered them got tongue-tied saying International Bank for Reconstruction and Development over and over again, for the name The World Bank, though it occasionally appeared in the press, hadn't come into general use yet.

* * *

Aron Broches, employee number 70, arrived at 1818 H Street September 23, 1946 to take up a position as one of six lawyers in the Legal Department.

Mr. Broches, who was a member of The Netherlands Delegation at the Bretton Woods Conference, had left a post as Legal Adviser in the Office of the Financial Counselor of the Netherlands Embassy in the U.S. to come to the Bank. When he retired in 1979, he had been for many years the Bank's Vice President and General Counsel.

He happened to join at the time of the first Annual Meeting, and the lawyers were assigned to work with some Annual Meeting Committees. General Counsel Chester A. McLain had told his staff that Annual Meeting work had priority, except for calls from real estate agents.

Finding Housing

"New staff, who were trickling in from New York and Europe, were having a difficult time finding housing," recalls Mr. Broches. "Mr. McLain came from New York, and having just found a house, sympathized with the problems of his associates.

"Most people were attracted to doing something new and different, but nobody was trying to force himself on the Bank," he remembers. "It was hard to get non-Americans, and it was typical that many came from the financial sections of the Allied embassies or from the Allied financial and economic commands in occupied Germany and Austria.

Edward Donovan Photo by Giuseppi Franchini

"Washington wasn't a very interesting city in those days; it had fallen asleep after the war. Many people expected the Bank would be located in New York, but at the inaugural meeting in March 1946 in Savannah (Georgia), the United States said it wanted the Bank in Washington.

"That set off a battle royal between Fred Vinson, Vice Chairman of the U.S. delegation at Bretton Woods, who wanted the Bank located in Washington, and Lord Keynes, who wanted the Bank located in New York. They didn't mince any words. Vinson said something like: 'You're invited to someone's house and then you want to pick your room.' And Keynes said, 'I didn't want to come to your house in the first place and now I can't even choose the room.' While the Fund was then more important in peoples' minds than the Bank, the United States wanted both close to the Treasury and Congress and away from Wall Street."

Aron Broches Photo by Michele Iannacci

If the Bank seemed to have a relatively large number of lawyers, that was what was needed at the time, says Mr. Broches. "The Articles of Agreement gave policy guidance but told us very little about their implementation. It fell to the lawyers to list (and sometimes to answer) the myriad questions that had to be resolved before the Bank could start operating as a lender, borrower and a manager of its own financial affairs. We did a great deal of drafting in preparation for the first loan, which was not made until May 1947.

"I remember with some pleasure writing a memo in November 1946 recommending that the Bank insulate its loan agreements from local law, whether U.S. or other. The General Counsel thought that was a good idea, and to this day the Bank's lending instruments so provide.

"The French who received the first loan were sensitive about a number of points in the agreements, such as access to any part of their territory, which the General Counsel put in—not because they would arise in the case of France—but because he knew we might need them in agreements with other countries. It was clear we couldn't differentiate among countries."

There were also quasi-constitutional issues. "After Eugene Meyer left, and the Vice President died, but before the new President had been named, The United States Executive Director said that, he, as the Executive Director of the largest shareholder, would run the Bank.

"Chester McLain, the General Counsel, said that was illegal and decided to resign on principle, but he told us he hoped his staff would stay on. One of my colleagues and I were also about to resign. With all the infighting going on, the Bank didn't look like a worthwhile place to stay."

Gave Up the Battle

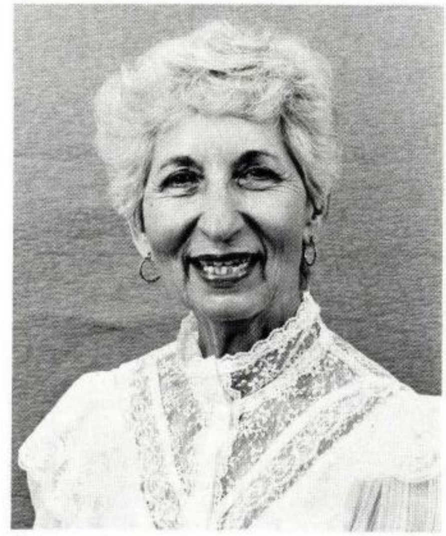
"At the 11th hour, however, the U.S. Executive Director gave up the battle and left. So Mr. McLain unpacked his books, and the Legal Department settled down to work."

* * *

"I remember thinking, is this Bank ever going to make that first loan?" says Jeanette Sanders who started October 28, 1946.

"The Bank didn't have any precedents and was being very cautious and investigative," she remembers. "In those first few months, it seemed loose and not totally organized as far as operations were concerned."

Mrs. Sanders came to work as a Secretary in the Economics Department because "I was very interested in the fact that the Bank was in existence for reconstruction. It was right after the war, and I thought it was such a humane and idealistic concept. I think many people came because they believed the Bank was doing necessary and important work."



Jeanette Sanders Photo by Michele Iannacci

Mrs. Sanders worked at the United Nations Relief and Rehabilitation Administration (UNRRA) before joining the Bank. After her early stint in the Economics Department, she moved to the Executive Directors' Office and, for many years, was in the U.S. E.D.'s office. When she retired in 1980, she was a Secretary to President Robert S. McNamara.

She, too, remembers the Christmas parties and annual picnics. "The picnics were very festive. The Bank would close for the afternoon and the staff and their families, including children, would gather in Rock Creek Park. There were many games and friendly exchanges," she says.

"The tennis club brought Bank and Fund staff together. We were a mixed group of professionals and nonprofessionals, and after our tennis games at the Friends School on Wisconsin Avenue, we would all go to a Hot Shoppes and chat for a while. We had a lot of fun together. There was a casual and friendly atmosphere at all these gatherings.

"We were a diverse group, and yet there was a close family feeling. We all shared an idealistic attitude about the Bank's work—that we were doing something which needed to be done after the recent devastation caused by the war."

For MC Consideration June 16/86
RECORD E-1227

For MC Consid. 6/16
Extra Copy

World Bank Group Staff Association

EXC/MC86-24

134

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

TO: Mr. A.W. Clausen, President

June 12, 1986

FROM: Donneve Rae, Chairperson, Staff Association

SUBJECT: Recruiting Staff on G-IV Visas

It has come to my attention that you and the senior managers will be discussing the recruitment policy as it applies to 11-17 positions this coming Monday.

I am glad the subject is to be reconsidered. When the Staff Rule was drafted, the Staff Association strongly opposed the provision that required staff recruited into 11-17 positions to already be in possession of a valid G-IV visa. Since G-IV status terminates upon employment, this provision effectively barred expatriates from being recruited into the lower levels.

We considered this provision a violation of the Articles of Agreement which state in Article V Sec. 5 (d) that "in appointing the officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible." Not only in that expatriate recruitment would be excluded and therefore the geographical basis would be considerably eroded but also because it is more expensive to the Bank to hire persons subject to U.S. income taxes than it is to provide expatriate benefits to holders of G-IV visas, and therefore the policy change does not meet the efficiency test.

In our discussions we discovered the reason for the change was that the U.S. Department of State objected to the Bank's recruiting practices. We firmly believe that the Bank should not succumb to such pressure.

Not to maintain the position that whoever the institution wishes to hire should be granted a G-IV visa, tacitly allows one member nation to control eligibility for Bank employment. This is a very dangerous precedent and one we feel should be strenuously avoided even if some inconvenience to the institution results. Informally, PMD and LEG have been swayed in the execution of their duties by trying to maintain "good" relations with the U.S. agencies they deal with routinely. We feel that even informally the Bank should take scrupulous care to preserve its rights and immunities.

Finally, as a practical side, we wish to point out that this policy exacerbates the recruitment problem. Due to the policy changes of the past several years, most implemented to make the institution more "cost-effective", the compensation package is unattractive to US nationals because the tax allowance falls substantially short of actual tax expenditures, is only marginal for green card holders because they no longer receive home leave and now is closed to expatriates. In light of these changes, we must ask how the Bank plans to meet its staffing requirements.

We hope that these views will assist you in your discussions and we hope that the institution will not only revert to its original policy but might consider making international recruitment the norm Bank-wide, since COM believes that US taxpayers are the category of staff most costly to maintain.

If you wish to discuss any of these matters I would be pleased to speak with you at your convenience.

Record Removal Notice

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
June 6, 1986	Memorandum w/attachment

Correspondents / Participants
To: Mr. Nigel Roberts, Secretary, Managing Committee
From: C.F. Amerasinghe, Executive Secretary, WBT

Subject / Title
Periodic Report on the Status of the Administrative Tribunal's work

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
June 3, 1986	Memorandum

Correspondents / Participants
To: Mr. Hugh W. Foster, Alternate Executive Director
From: C. Ziegler, Staff Association Delegate

Subject / Title
The May 22 Compensation Decision

Exception(s)

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

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

t x c

DATE June 2, 1986

TO Mr. Nigel Roberts

FROM Jose Botafogo G., VPE

EXTENSION 72466

SUBJECT Report on ODA for the Development Committee: Mrs. Krueger's Memo

I suggest we postpone the discussion of this issue to a future Managing Committee meeting for the following reasons:

a) Although the Development Committee at its April 1986 meeting requested that the Bank prepare for the Committee's next meeting a report on the volume of ODA flows forecast for the period 1986/90, the Chairman of the Development Committee suggested recently in a letter to Mr. Clausen and Mr. de Larosiere a draft agenda for the next meeting;

b) One item of the draft agenda is the issue of ODA flows;

c) Before we discuss among ourselves and with the IMF the agenda I believe it is premature to consider an outline of a study on ODA flows;

d) In my briefing paper to Mr. Conable I indicated, as a priority issue, the need to have his input regarding the agenda for the next Development Committee meeting. I am seeing him this afternoon. It will be very useful to take into consideration his comments before we discuss and agree on the nature or contents of background papers for the September meeting;

e) I received last Friday from Mr. Burki a memo containing suggestions regarding how to structure the ODA flows report. Before approving it, I instructed him to contact ERS to ensure that all relevant aspects, either political or economic, have been taken into consideration before undertaking the actual production of the paper;

f) In spite of my institutional responsibilities as far as the Development Committee is concerned, I was not informed, neither were any of my associates, of Mrs. Krueger's intention to raise this issue in this meeting. I don't consider this the right procedure, specially now that we are meeting each other at very regular intervals.

cc: Mr. Clausen

BYRON L. DORGAN
NORTH DAKOTA

238 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-2611

WAYS AND MEANS COMMITTEE

SUBCOMMITTEES:
OVERSIGHT
SELECT REVENUE MEASURES

— For MC information —
RECORD E-1227

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
358 FEDERAL BUILDING
3D & ROSSER AVENUE
P.O. BOX 2579
BISMARCK, NORTH DAKOTA 58502
(701) 255-4011 EXT. 618

101 FEDERAL SQUARE BUILDING
112-114 ROBERT STREET
P.O. BOX 1664
FARGO, NORTH DAKOTA 58107
(701) 237-6771 EXT. 5136

May 23, 1986

MAY 23 198

EXC/MC86-21

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IMPORTANT NOTICE: GRAMM-RUDMAN BUDGET CUTS WON'T AFFECT YOU AND THE U.S. CONGRESS WON'T TOUCH YOU!

Dear Colleague:

Where can you find a job like that? Well, you could check with organizations created by the U.S. government to provide help to the foreign nations of the world. Send your resume to the International Monetary Fund (IMF) or the World Bank. If you're an American applying at the IMF, you'll find that 40% of everyone who works there is assigned a salary grade with a mid-point of nearly $70,000 in equivalent American pay grades.

All employees at the IMF are tax-free -- that is, they don't pay income taxes to their home country or to this country.

For that reason, U.S. citizens who go to work at the IMF have their salaries increased by an amount equal to the U.S. taxes they owe so that they, in effect, become tax-free as well. That is what I mean by American pay grades.

Some 17 IMF employees are in a grade with an American top salary of $149,000; 48 are in a grade with an American top salary of $137,000. And 67 employees are in a grade with an American top salary of $130,000. Are you starting to the picture?

At a time of fiscal restraint, budget cuts and frozen pay at the federal level, these agencies are giving salary increases on already inflated salaries. Also, the mission of these institutions -- to help underdeveloped nations -- would seem entirely inconsistent with the Wall Street salaries and overly-generous fringe benefits that have been created for those who are fortunate enough to be employed by them.

I am asking Treasury Secretary James Baker to compare salaries at the IMF and World Bank and other organizations of similar nature to salaries paid to federal government employees in our country.

The U.S. government and others which pay a generous amount of money to these organizations have not been keeping track of how that money is spent.

It's time to ensure that they exhibit the same kind of restraint we're asking to be exhibited by our own in the federal government.

Sincerely,

Byron

Byron L. Dorgan
Member of Congress

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
May 19, 1986	Memorandum

Correspondents / Participants
To: Deputy Assistant Secretary James W. Conrow
From: Hugh W. Foster, U.S. Alternate Executive Director

Subject / Title
Allocation of FY87 IBRD Net Income (The Foundation for Scientific Research)

Exception(s)
Communications of Executive Directors' Offices

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
May 15, 1986	Memorandum

Correspondents / Participants
To: Mrs. Serena Han Clarke, Deputy Secretary
From: Hugh W. foster, U.S. Alternate Executive Director

Subject / Title
Bank Facilities

Exception(s)

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

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
May 12, 1986	Letter

Correspondents / Participants
To: Mr. N.F. Potter, Executive Director
From: A.W. Clausen, President

Subject / Title
In reply to Secretary Baker's letter to the Bank Governors, on the 1986 annual review of staff compensation.

Exception(s)

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

With attached routing slip from Nigel Roberts to Managing Committee Members.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

— For MC information
R E C O R D

E-1227

DATE: May 6, 1986

EXC/MC86-17

TO: Members of the Managing Committee

FROM: Nigel Roberts NR

EXT: 73585

SUBJECT: Distribution of Managing Committee Papers

In recent weeks this office has, on a number of occasions, been asked to distribute papers to the members of the Managing Committee at the last minute--sometimes as late as 7:00 p.m. on the Friday preceding a Monday morning meeting. In many cases, Managing Committee members had already left for the day, and it was thus too late to arrange for any messenger service. As a result, we have received complaints.

I appreciate that there are often extenuating circumstances and we certainly try to do everything possible to accommodate these. But I would like to recall for the Committee the long-standing guideline under which papers should, whenever possible, be sent to me for circulation at least ten calendar days in advance of their consideration at a meeting. The rationale behind this, of course, is that Committee members should be given sufficient time to review an issue before discussion takes place. This guideline still stands, but in the event of an unforeseen agenda item I would request that papers be sent to this office no later than close of business on the Thursday evening prior to the meeting. Otherwise, we may not be able to ensure that all Committee members receive a particular paper in time to study its contents.

MH:NR

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

For MC information

RECORD

E-1227

EXC/MC86-16

DATE: May 9, 1986

TO: Members of the Managing Committee

FROM: Nigel Roberts

EXT: 73585

SUBJECT: FY87 Financial Plans and Programs - Borrowing Plan

The attached note to Mr. Clausen and draft sections of the upcoming FY87 budget document address planning and liquidity issues posed by the IBRD Borrowing Plan for FY87, sent to you by Mr. Qureshi for clearance under cover of his memorandum of May 5. These draft sections provide the broader context for issues that Committee Members may wish to discuss at the May 12 meeting under "Other Business".

cc: Messrs. Rotberg
Wood
Vergin

P-1867

May 8, 1986

Mr. Clausen

Tom,

FY87 Borrowing Plan: Draft Board Paper

You have asked that we address the liquidity issue caused by the recommended size of the FY87 borrowing program in the paper presenting the FY87 borrowing plan. As I mentioned to you, it had been our intention to provide full disclosure of this matter in the FY87 budget document based on the judgment that this document is the more appropriate vehicle to fully develop the needed background of commitment and disbursement plans, as well as other planning assumptions which are influencing the projection of net cash requirements which in turn determine the appropriate borrowing range.

Following the precedent set in previous years, we were planning to rely on two cross-referenced Board documents which were to be released at about the same time:

- The master document, i.e., the FY87 statement of programs and budgets (a draft of the relevant sections prepared by FPA and cleared with Mr. Wood is attached);

- The borrowing plan setting out the details of the proposed program in terms of instruments, currency mix and rationale for the composition of the program.

The preparatory consultation with the individual Board members would then make reference to both Board documents, and the formal Board discussion of the borrowing plan tentatively scheduled for June 12 as well as the discussion of the budget document scheduled for June 17 would be fully informed by both papers. Also, as you suggested, the presentation of the liquidity issue in the budget document (para. 3.04 of the attached draft) addresses the point that the liquidity policy with its bracket of 40-45% for the liquidity ratio was never intended to cope with the range of uncertainty that we are presently confronting.

Could we please have your guidance on the following options:

1. If you wish, we could enhance the paper setting out the borrowing plan to include the material on planning assumptions and liquidity which will also have to appear in the budget document. We could also enhance the paper to defend the liquidity ratio resulting from the recommended borrowing plan.

2. Alternatively, and this would be our preference, we could stay on our present course but strengthen the cross references between the two documents and ensure that they are issued and clearly understood as tandem document.

3. As a variant of (2), we could go one step further and instead of providing for separate Board discussion of the borrowing plan on June 12, we could include the discussion of the borrowing plan in the general discussion of programs and budgets on June 17. We would not recommend that approach since we envisage that the Board would wish to discuss the borrowing program separately from the already rich June 17 agenda provided by other program and budget issues.

If you wish, these options could be discussed at the Managing Committee meeting on Monday. In that case, you may want to circulate the attached draft sections of the budget document to the Committee.

Heinz Vergin

cc: Mr. Wood

SECTION 3: IBRD/IDA Financial Plans and Program

IBRD Commitment Authority

3.01 The current estimate of the sustainable level of lending (SLL)1/ is about [14.5] billion. As Directors are aware, lending authority is affected by foreign exchange movements since capital is conservatively valued at the lower value of the SDR or the current US dollar. The above SLL estimate is the result of the SDR valued at $1.17. Ff capital were valued at $1.20635/SDR, the SLL would be about [$15] billion.2/

3.02 As noted earlier, the commitment planning range for FY87 is $13.5 to $17 billion. The best estimate of the most likely outcome ($15 billion) is very close to the SLL. If lending towards the upper end of the range should materialize, it would be very desirable to have reached agreement in principle on a general capital increase (GCI) before completion of the FY87 program. In any event, based on current expectations of lending in FY88, agreement on a GCI (in the form of a specific recommendation by the

---

1/ The sustainable level of lending is the maximum amount of annual loan commitments to countries that, under a certain set of assumptions, can be sustained indefinitely (in nominal terms) without increasing the loans disbursed and outstanding beyond capital and reserves.

2/ The SLL calculation also is sensitive to the assumption about the long-term share of fast disbursing loans in the future lending program. The estimates shown here assume a share of [18%]. The SLL would be about [$200] million lower if the long-run share were 20%.

Executive Directors to the Board of Governors) would be required by the time of approving the FY88 lending program and budget.

IBRD Borrowing and Liquidity

3.03 A separate paper has been distributed on the borrowing results for FY86 and the specific plans for FY87.3/ Determining the size of the borrowing program for FY87 has been particularly difficult. On the one hand, the liquidity level and ratio going into FY87 are already high due primarily to the lower than expected level of FY86 disbursements ($8.5 vs. $9.3 billion), higher net income ($1.4 billion vs. $0.8 billion), and downward revisions in projected future disbursements. On the other hand, present market conditions and opportunities are favorable to lower costs and longer maturities. In addition, borrowing plans must take account of potential future growth in lending, since borrowing capacity needs to be built up in advance of actual need and in an orderly manner. As a matter of financial prudence, the Bank's borrowing program should be formulated in such a manner so as to avoid a sharp step-up in borrowings and/or fall in liquidity from year to year which could occur in the case of rapidly rising lending and disbursements.

3/ Management's memorandum to the Board "IBRD Borrowing Plan for FY87", R86-___, dated May ___,1986.

3.04 Accordingly, we have planned FY87 borrowings with a view of accomplishing an orderly phasing of borrowings over the next 3 to 5 years during which both lending and disbursement levels are uncertain. More specifically, borrowings over the next 3 years havé been phased and the planned range of the liquidity ratio is wider than usual so as to minimize the risk of the liquidity ratio falling below 40% should disbursements turn out to be close to high end of the range. In pursuing this phasing, we would accept the risk that, liquidity could remain above 45% at the end of FY87 if disbursements do not exceed the base case projection. It should be noted in this regard that the current liqudity policy was not designed to deal with the degree of lending and disbursement uncertainty that the Bank now faces. The policy is scheduled for review during the course of FY87, but pending that review, Management would propose to follow a flexible approach on liquidity in order to take advantage of market conditions and to assure that the build-up in borrowing capacity stays ahead of the potential growth in financing requirements.

3.05 The proposed FY87 borrowing range is $10 to $11 billion over a 15 month period, i.e., including the $1 billion borrowing in FY86. Management is recommending an $11 billion 15 month borrowing program. This would result in a modest reduction in the liquidity ratio (from 50% at the end to FY86 to 48% at the end of FY87) if the base case disbursement scenario is realized; under the high disbursement outcome the ratio would fall to 42%. A $10 billion program would produce a liquidity ratio of less than 40% if disbursements reach the upper end of the range. The $11 billion borrowing program would be phased during the year in such a way that it could be reduced by at least $0.5 billion at mid-year if disbursements then appear likely to be in line with the base case.

Disbursements and Borrowing Plans
($ billions)

	FY86	FY87	FY88	FY89	FY90
Base Case disbursements	8.5	9.5	11.3	13.0	14.5
Borrowing program	9.6a/	10.0-11.0	10.5	11.9	12.5
Liquidity ratio (%)	[50]a/	[39-48]b/	45.0	42.5	42.5

a/ Excludes $1 billion in advanced borrowing; including this amount in FY86 would result in a liquidity ratio of 53%.

b/ The lower figure assumes an FY87 borrowing program of $10 billion and the higher disbursement outcome; the upper figure assumes an $11 billion borrowing program and a base case disbursement outcome.

Net Income

3.06 IBRD net income in FY86 is now expected to be in the $1.3-1.5 billion range, compared to the $0.7-0.9 billion range projected in the FY86 Budget. This increase is due mainly to (a) the lower than projected borrowing costs (7.3% present estimate vs. 8.8% Budget projection for the

—For MC information
RECORD

E-1227

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

EXC/MC86-15

A. W. CLAUSEN
President

March 20, 1986

The Honorable
Barber B. Conable
P. O. Box 218
10532 Alexander Road
Alexander, New York 14005

Dear Barber:

It was a great pleasure to see you on Tuesday, and to have some time with you discussing your impending arrival here at the Bank. Let me say that I am looking forward to spending with you as much time as you need over the next few months, in order to help you get acquainted with the institution.

As we discussed, the Bank's Executive Directors are now engaged in consulting with their governmental authorities and among themselves on your nomination. It is my understanding that formal selection will take place at a Board meeting on April 3rd. After that, you will receive a visit from a delegation of Executive Directors consisting of the Dean of the Board, Mr. Yamaguchi, and one other senior Executive Director. They will make you a formal offer, and will discuss terms of service with you. The Bank's General Counsel, Ibrahim Shihata, will also be present at this meeting. The Board will then discuss and ratify your contract; I expect that this final step in the process will occur around the middle of April.

After our Tuesday meeting, I decided to discuss transitional arrangements with my senior management colleagues -- the eight other members of our Managing Committee. We all agreed that the Bank owes it to you to ensure that you have as smooth and informative a transition as possible, and I outline for your consideration how we might go about achieving this. First, I think it would be both appropriate and efficient if your formal briefing meetings with Bank staff were to be coordinated by my office -- specifically by Nigel Roberts, the Assistant to the President, whom you met on Tuesday. Without in any way wishing to impede your own access to Bank staff, I would suggest that some kind of selectivity and logical sequencing on our part would help to ensure that you meet the key players, and have sufficient opportunity to discuss various aspects of the Bank's work with them. As I have already mentioned, I look forward to participating very actively in the briefing process myself. Second, we are in the process of preparing written briefing papers for you, and these will also be coordinated through my office. We will keep the papers as succinct as we can, while covering the main institutional facts and issues with which we feel you might wish to be acquainted at this stage. These papers should be ready for you at the beginning of May. Third, we would like to make available to you secretarial support and office facilities near to the Bank, for whenever you require them; you would then have a base from which to operate once you have moved back down here.

On a more personal note, please don't hesitate to let me know if there is anything I can do to help you and your wife settle in again. Peggy and I are looking forward to asking you both around to dinner, and will be in touch with you about this later.

Once again, Barber, it was very good to see you the other day. I look forward to seeing you again next week, and to hearing your views on what I have suggested.

Warm regards.

Sincerely,

A. W. Clausen
President

bcc: Managing Committee Members
Mr. Wm. Stanton

NRoberts:sbp

FORM NO. 89
(2–83)

THE WORLD BANK

ROUTING SLIP	Date March 20, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Secretaries of Managing Committee	
Members	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

EXC/MC86-14

Please replace previous version. My Micom finger "missed a beat" in the subject line.

Many thanks.

Sonia Benavides

From

For MC Action by c.o.b. March 27/86—
RECORD E-1227

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

A. W. CLAUSEN
President

CONFIDENTIAL

EXC/MC86-14

March 19, 1986

DECLASSIFIED
MAY 22 2017
WBG ARCHIVES

To: Managing Committee Members

Subject: Transitional Arrangements for Mr. Conable

As you are aware, the period in which the Executive Directors and their authorities consider the U.S. nomination of the new President is a delicate one, and we will therefore need to be alert to the sensitivities of the Board throughout it. The selection process is likely to take a number of weeks to complete, with the key decision to select expected prior to the Development Committee, or by mid-April at the latest. Reflecting on our discussion this morning, I feel it would be inadvisable for a formal announcement about transitional arrangements to be sent to staff prior to the Board's decision to select. I would prefer, rather, that each of you convey today's decisions down through your Managing Committee complexes in an appropriate manner.

Let me summarize the relevant decisions:

a. All appointments to meet Mr. Conable should be made through the President's Office, with tentative arrangements (for approval by Mr. Conable, of course) to be coordinated by Nigel Roberts. We should aim to set up the meetings in a logical sequence, starting with Managing Committee members, and moving to those whom we feel it is important for Mr. Conable to meet in the pre-July 1 period.

b. Likewise, all written briefing materials should be channeled through the President's Office. Let me stress once again that these should be brief, while covering the key institutional facts and issues with which Mr. Conable needs to be acquainted at this stage. In order to ensure coordination between Managing Committee complexes, I would like an outline of each Managing Committee complex briefing to be prepared by c.o.b. March 27. I would also propose that the briefings themselves should be ready in draft by April 30.

AWClausen

NR:sbp

For MC information
RECORD E-1227

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXC/MC86-13

OFFICE OF THE
MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

February 28, 1986

Dear Tom:

Thank you for your letter of February 24, 1986 in which you address the fundamental issue of the balance between adjustment and financing in the process toward economic growth. As you know, I am entirely in agreement with your central point that the availability of additional amounts of sustainable financing on appropriate terms is a favorable factor for growth. Indeed, this belief was behind the strategy we adopted in the wake of the debt service difficulties that surfaced a few years ago. Of course, these observations must be supplemented by the essential need to ensure that the resources are used efficiently, without which no growth path can be sustained.

Basically, the iterative process to which you refer in your letter seems reasonable; indeed, such a process is the one we have followed so far to put together financing packages, in some cases, of an unprecedented magnitude. But as you know, we have also sought from the debtor countries strong domestic adjustment programs because without them we saw little probability of obtaining the external support that was required. From our experience, and given the efforts already made both by many debtor countries and by their creditors, I believe that we must be cautious at this time in our assessment of possible financing packages. We must avoid raising unrealistic expectations on the part of the countries involved and we must also avoid giving the impression to the sources of capital that our demands are out of reach.

The iterative process that you describe will inevitably have to be followed in some fashion. Its objective will continue to be, of course, the attainment of a higher level of financing than would be available without the support of our two institutions for the member country's adjustment effort. Looking to the future, the challenge that we confront is a multifaceted one. We need to agree with our borrowers on high quality medium-term adjustment and structural programs, as you note. At the same time, we need to see that external financial support is rallied for those programs and we must seek this support by influencing not only the level but also the composition of capital flows. External resources on an appropriate scale and a more sustainable structure of capital movements are ingredients that must accompany the adjustment and structural efforts of indebted countries, if those efforts are to bear fruit. Use of different scenarios with more or less (but in all cases <u>viable</u>) external assistance can help creditors and donors to assess better the consequences (on growth) of a particular set of external assistance levels.

You refer in your letter to Mr. Baker's proposals. I believe that the above observations go to the heart of those proposals in stressing that additional amounts of external resources, on a sustained basis, together with their productive use will allow countries to reach high growth rates. I believe that the close interconnection between efficient policies and external support cannot be overstressed: efficiency and growth are in the event the best means to stimulate autonomous flows of direct investment which are required to help economies to continue on a high growth path and at the same time reduce their reliance on foreign debt financing.

I will be happy to meet with you to discuss these issues as soon as it can be arranged.

Sincerely,

Jacques

J. de Larosière

Mr. A. W. Clausen
President
World Bank
Washington, D.C. 20433

For MC information
RECORD

E-1227

EXC/MC86-12

March 3, 1986

Mr. Arthur Dunkel
Director-General
General Agreement on
Tariffs and Trade (GATT)
Centre William Rappard
Rue de Lausanne 154
CH-1211 Geneva 21
Switzerland

Dear Art:

I am writing to explore with you whether and how developing countries undertaking to rationalize or liberalize their regimes in the near future can gain "credit" for such actions in the context of the new round of multilateral trade negotiations likely to be undertaken within the GATT.

As you know, The World Bank has been providing increasing support to the trade liberalization efforts of its members, with structural adjustment loans and other policy-based lending. Developing countries can obtain important gains in efficiency and growth through the rationalization and liberalization of their own trade regimes. In parallel, the Bank has tried to promote enhanced developing country access to developed country markets. For this purpose, in our policy pronouncements we have stressed the importance of reductions in the trade barriers of industrial countries, especially on products of interest to developing countries. Continuing debt servicing difficulties encountered by many developing countries have raised the urgency of worldwide trade liberalization. Developing countries can only hope to maintain service on their debt if their exports expand within an environment of freer international trade.

The Bank has also supported the initiation of a new round of Multilateral Trade Negotiations (MTN) because we feel that a new round can make a useful contribution to liberalizing world trade. We have indicated that developing countries should participate actively in such a round and, consistent with their development status, exchange liberalizing concessions on a reciprocal basis with industrial

...2..

countries. We have felt that the willingness of developing countries to liberalize in this manner will be a constructive step in its own right as well as contribute to improving their access to markets of industrial countries.

At present, we find that certain developing countries, which are likely to be active participants in the future multilateral trade negotiations, are reluctant to implement urgently-needed trade reforms. These countries fear that by doing so they will give up some of the bargaining leverage they would need during the new round, in order to improve their access to markets of industrial countries. As the MTN process is likely to yield results only after several years, reforms which are needed to encourage structural change today may well be significantly delayed.

We think that one way to encourage early action on trade reform by developing countries is for industrial countries to provide some assurances that developing countries will receive credit in future bargaining under the MTN for the liberalizing actions they take now. While the amount of "credit" would have to be negotiated later, the recognition in principle that such credit should be given could be helpful to developing countries considering trade reforms at present. I understand there is precedent for this concept -- "credit" was, you will recall, extended by the U.S. to some Latin American countries during the Kennedy Round. The form of the credit and the technical aspects of implementing it are obviously GATT matters, which you are much better able than I to make judgements about. However, if you consider this to be a useful idea, I would like to have your views as to how and in what fora it can be pursued further. Perhaps the Development Committee meeting in April would be a useful forum in which the issue could be raised.

The World Bank is not wedded to the idea of "credit" as the only means of addressing a problem we believe is now starting to emerge. We welcome any suggestions you have which will promote early action by some developing countries to liberalize their trade, and will at the same time not undermine their bargaining power in future multilateral trade negotiations.

I have discussed our views with Jacques de Larosiere. The Fund, as you know, is very much committed to the same open trade policy stance as we are. Jacques expressed his support for any initiative that would promote early and effective trade liberalization.

Warm regards.

Sincerely,

A. W. Clausen
President

bcc: Mr. de Larosiere
Mrs. Krueger

CMichalopoulos:MH

- For MC information
R E C O R D

E-1227

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

A. W. CLAUSEN
President

EXC/MC86-11

February 24, 1986

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D. C. 20431

Dear Jacques:

In recent staff discussions on a number of papers being produced in the Fund and the Bank, a basic issue seems to have surfaced which I think we ought to discuss as soon as possible. The issue affects how we reflect the role of our two respective institutions and how we deal with our members in the context of their debt and adjustment problems.

The core of the issue was best described in a recent note from Mr. Guitian which said:

> "I doubt that growth can be 'willed' ex ante or that it can be assured only by financing, as seems implicit by the additional reference made to an early agreement between the Fund and Bank on the likely resource implications of such growth. As you know, we typically stress the importance of working within existing resource constraints (an approach that places the emphasis on efficiency) instead of targeting growth and external needs (an approach that underscores financing)."

Without wanting to highlight the comments of one individual, or quote out of context, I believe this statement underlies a number of specific issues which have emerged recently. I agree, of course, that growth is not a matter of willpower and I certainly won't argue that it can be achieved by simply adding external financing. However, it seems to me that the essence of Mr. Baker's proposals, with which we entirely agree, is precisely that higher growth rates are an essential part of the adjustment process and that such higher growth rates, in the context of a satisfactory adjustment program, require additional external capital. I thought we had agreed that in developing medium-term adjustment programs for discussions with our borrowers, we would seek an early agreement between the Bank and the Fund on likely resources available. This does imply an iterative process with the member in case the anticipated external resources cannot be raised and additional measures or a reduction in the growth objective may become necessary. It is understood, of course, that at any one time one must work within existing resource constraints but the question surely is at what point one decides what these constraints are. By deciding too early, we do not test the flexibility of response of the commercial banks and other sources of finance, nor do we provide an opportunity to the country to state the benefits to its creditors of a more rapid growth scenario even if that involves additional external financing in the initial years. This is not a choice which we believe ought to be pre-empted by technical staff.

In order to make sure our staffs are properly guided on this matter, I suggest we get together to discuss it as early as possible.

Sincerely,

A. W. Clausen
President

BC: Managing Committee

Record Removal Notice

File Title		Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01		1775485
Document Date	**Document Type**	
February 19, 1986	Memorandum	

Correspondents / Participants
To: Members of the Executive Board
From: The Acting Secretary

Subject / Title
Summing Up-- Discussion on the Use of Resources of the Special Disbursement Account -- EBM/86/24 - February 11, 1986

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

February 19, 1986 - 86/30

The Chairman's Summing Up of the Discussion on the Use of Resources of the Special Disbursement Account Executive Board Meeting 86/24 - February 11, 1986

While this was not the final discussion of the use of the resources of the Special Disbursement Account (SDA) and further work still needs to be done before we reach general agreement on this matter, I think it would be helpful to Directors, management, and the staff if I were to indicate a few general observations and some specific operational points I have gathered from this most interesting debate.

General Observations

Many Executive Directors remarked first, that, whatever the preferences of some may be, the clear mandate given the Board by the Interim Committee last October must guide the practical decisions on the use of the SDA.

Second, Directors agreed that the resources of the SDA should be put to good use. The need for growth in the poorest countries is so clear and their balance of payments problems so deep-seated that structural changes in a medium-term policy framework are called for; that SDA resources must be geared to such medium-term programs was clearly indicated by the Interim Committee.

Third, many Directors stressed that the modalities of the precise arrangements for use of the SDA should be practical and flexible.

Fourth, it is essential that our work on the use of SDA resources should be completed before the next meeting of the Interim Committee and that any unnecessary delays in implementing the use of SDA resources should be avoided. The problems of many potential recipient countries are indeed so serious that a quick solution is called for.

Finally, many Directors expressed their appreciation for the views and proposals put forward by both Mr. Mtei and Mr. Dallara.

Operational Issues

1. Eligibility for use

Executive Directors confirmed the view that all low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems will indeed be eligible to use SDA resources. Directors again commended China and India for having committed themselves to refrain from using these resources.

The staff analysis of possible determinants of protracted balance of payments difficulties was, on the whole, considered to be useful, but several Directors stressed that the criteria suggested by the staff should not be applied in a mechanical way. Rather, flexibility will be needed in assessing, on a case-by-case basis, the position of individual countries making requests. A number of Directors particularly emphasized the need to take a broad view of the notion of "protracted balance of payments problems" and advised against indicators that were too simple or mechanistic. In particular, I noted the relevant questions relating to those countries having serious balance of payments problems that may not be protracted in the sense defined by the staff, owing to the implementation of appropriate adjustment policies in the past. Directors enjoined the management and the staff to consider such questions carefully when examining any request received from an IDA-eligible country. Also, it was noted that given the volatility of external circumstances, a reconsideration of a country's position could well be called for over time.

2. Commitment and disbursement of resources

The concept of a three-year commitment covering successive annual programs was broadly supported. The possibility of enlarging those commitments as experience with actual Trust Fund reflows and SDA disbursements unfolded was also widely accepted. On the whole, I perceived that many Directors considered that the assumptions made by the staff to calculate the initial commitment of resources might be too cautious; many Directors urged that substantial accumulation of unused funds be avoided. In that regard, Mr. Lankester's proposal for larger initial disbursements under the facility, with perhaps a first-year disbursement of about 20 percent, in order to encourage members to utilize SDA resources at an early stage, has been widely supported.

3. Conditionality

This is a difficult subject, but I think we all agree that the deep-seated nature of the problems calls for the formulation of a medium-term policy framework. Indeed, that was the position taken by the Interim Committee. Directors generally agreed that reform programs should cover a time span of three years, incorporating a series of annual financial programs.

Views differed on the content of the objectives to be pursued and the precision with which objectives were to be defined. Several Directors preferred that the objectives should be set in qualitative terms, but the majority of the Board appeared to be moving toward the following principles:

First, no performance criteria in the usual sense of the word should be requested.

Second, indicators--be they called benchmarks or otherwise--were needed both to define a structural reform, and to enable evaluation of the progress under a program. In this connection, it would be important to adapt annual programs as needed to changing circumstances in the framework of a medium-term policy.

Third, to the extent possible benchmarks should be quantified.

As for the timetable for monitoring programs and the disbursement of funds, I perceived today a rather strong drift toward annual reviews. I agree with what the staff had to say on initially closing financing gaps and thereafter securing additional financing to cover gaps so that SDA resources indeed support the members' adjustment efforts.

4. Fund-Bank collaboration

Directors generally agreed that, given the need for a comprehensive policy approach and the structural nature of the problems facing low-income developing countries, close collaboration between the Fund and the World Bank is necessary. They also agreed that the staffs and managements of the two institutions must remain in close contact at early and subsequent stages of discussions with countries.

I think it is fair to say that there was widespread support for the modified U.S. proposal, as further commented upon by Mr. Dallara, so far as that proposal concerned only Trust Fund reflows and not the use of the Fund's general resources and it being understood that Fund SDA programs would be negotiated and approved separately from possible individual World Bank programs. Directors generally considered that the framework policy paper, which constitutes the operational core of the U.S. proposal, should not be overly precise, and that the timing of joint missions should be adapted to the particular circumstances of the case and to the timetables of the Bank and the Fund. As far as the Fund is concerned, there are already a number of Article IV consultations and negotiations or reviews of the use of Fund resources, and so on. Appropriate procedural modalities will, of course, have to be put into place after the World Bank has considered its position vis-à-vis the U.S. proposal. Whatever the final modalities of collaboration between the Fund and the World Bank, clearly three things have to be kept in mind:

First, no crossconditionality should result from such procedures. And I can reaffirm this after having heard Mr. Jayawardena's intervention.

Second, the two institutions--whatever the modalities of their operation--must preserve their respective mandates and expertise.

And, finally, some flexibility must be maintained in the specific working of these arrangements. In that connection, Mr. Lankester put forward the interesting idea that, while in some cases the Bank's Board might not take a position on the framework paper at the very outset or until a program with the Bank was requested, the Fund's Board could proceed with a request for SDA resources, considering the policy framework after it had been agreed with senior management in the Bank but prior to the Bank Board's approval, thereby satisfying the notion of a "joint framework policy."

5. Additionality

It was noted that one of the potential advantages of closer collaboration between the Fund and the World Bank would be the achievement of true additionality. However, a number of Directors said that true additionality did not mean simply earmarking existing resources for the purpose of "matching" Trust Fund reflows but would require making additional resources available. It was pointed out that true additionality was, of course, a difficult notion to define without knowing what complementary World Bank resources would be available. Nevertheless, it should be put on record that several Directors urged that members of IDA should go beyond $10-10.5 billion for the Eighth Replenishment if the notion of true additionality was to be respected. Also, a number of Directors remarked that the concept of an integrated or common view of a country's medium-term prospects and programs could be useful to others, such as consultative groups or bilateral donors, in their planning and thus could help to catalyze further financing.

The Board agreed that toward the end of 1988 these procedures and policies should be reviewed in the light of experience.

— For MC information
RECORD E-1227

EXC/MC86-09

February 10, 1986 - 86/23

Statement by Mr. Mtei on Use of Resources
of the Special Disbursement Account
Executive Board Meeting 86/23
February 11, 1986

At the outset let me reiterate the principal position of this chair regarding the use of resources of the SDA and which, basically, has not changed from what I had stated last September when the Board first discussed the issue. It is our view that the resources of the SDA should be made available to the low-income countries with the greatest need for concessional financing, no access to financial markets and which have been facing persistent difficulties in their BOP on terms and conditions similar to those of the original Trust Fund. This position is quite consistent with the 1980 decision on use of resources flowing from the Trust Fund repayments.

Before expressing my views on the specific issues contained in the staff paper before us, I would like to state that I found many of the staff proposals in the paper in complete contrast to, and representing a major departure from the letter and spirit of the Trust Fund and the terms and conditions which have governed its operation, particularly its quick disbursing nature and the requirement that it should have low conditionalities.

On the question of eligibility for use of the SDA resources, I have no major difficulties in accepting the staff approach of using per capita income supplemented by objective indicators to assess a country's balance of payments difficulties, including those related to current account behaviour and availability of external financing. However, we must accept that for many developing countries we have by now passed the stage of arguing about the severity of their balance of payments difficulties. This is clear in that almost all the objective indicators enumerated in the staff report that will guide the decision on the determination of eligibility in fact characterize the economic situation of a large number of developing countries. It makes practical sense that in this matter the Fund procedures should not mechanically be applied, and, therefore, I would urge for flexibility in the application of these criteria in individual cases so that no deserving country is excluded.

It is understandable that resources can be disbursed only when they are available. However, it is important to stress here that the pressing needs of eligible countries for financing in support of their adjustment effort call for an early commitment, quick disbursement and reasonable assurance of flows over the medium term. The amounts and timing of the reflows are known with a high degree of certainty, and therefore commitments could be made to qualifying countries with reasonable assurance. Without such assurance of financial flows the task of planning and implementing adjustment over a medium term will become extremely difficult. As has been mentioned by the staff, committing funds from SDA resources in support of medium term adjustment efforts, would encourage national authorities to press ahead with their adjustment initiatives.

However, while the medium term is acceptable as a time span in which to promote structural adjustment, we must learn from our experience with the EFF which has not had much success because of the rigidity of its "three year program". Realising this, the staff has proposed that financing be provided on the basis of "one year structural adjustment within a three year time-frame". I would stress that programs be drawn up in a flexible way to respond to the changing circumstances of individual countries and unforeseen developments beyond national authorities' control if rigidity is to be avoided.

Regarding amounts to be committed to individual qualifying countries, I have no major difficulty with the staff suggestion to determine potential commitments on the basis of members' quotas. While I can understand the staff's concern regarding uniformity of treatment of all potential users and the need to ensure availability of resources to provide assistance to members that may qualify after a considerable delay, the assumption that all eligible countries would qualify immediately following the initiation of operations by the facility may not be realistic. It is more likely that all potential users may not simultaneously qualify and there is a possibility that some eligible countries may delay their requests to see how things develop before applying. Moreover, technical and administrative work might take considerable time before a program can be approved by the Board. Therefore, the approach suggested by the staff in determining initial amounts for all eligible countries at 15 per cent of their quotas is likely to result in accumulation of uncommitted and undisbursed idle funds in the SDA at a time when the urgent need is for increasing financial assistance to the countries that qualify at an early stage. These considerations would argue for a commitment level higher than what has been proposed by the staff. The stretch of disbursement over three years as suggested in the paper would result in annual disbursements which might be too little to provide any meaningful support.

In my view, one of the important reasons why most Fund-supported adjustment programs have failed to produce the desired results - at least in African countries - is the lack of adequate financing at the right time. Financial support for adjustment efforts has been "too little, too late", thereby making social and political costs of adjustment well beyond what the adjusting countries could bear. It is important that we avoid repeating the same mistakes this time, and ensure that a meaningful financial support is provided at the right time to qualifying members. I would therefore propose an initial commitment rate of about 60 per cent of members' quotas to be disbursed over two years rather than three as suggested by the staff. While this proposal might result in over-commitment of funds relative to the inflow of resources to the SDA, for the reasons I have already mentioned, it is not likely that difficulties would arise when it comes to actual disbursement. In my view, this would be a better way to proceed than the piecemeal approach suggested by the staff which proposes to make minimal initial commitments and then consider further enlargement in the future, and which carries with it the danger of repeating the "too-late, too-little" syndrome. Actual disbursement should be made annually on the basis of an economic program to be presented by the authorities. Progress under the program can be reviewed at the end of the year at the same time when the second year program is discussed. This would be in accordance with the spirit of the original Trust Fund.

I now turn to the area of my major concern, and which has been highlighted in the instructions I received from my authorities. This is the unacceptably high level of conditionality proposed by the staff to be attached to the use of the SDA resources as detailed on pages 16 to 18 of the paper. We all agree on the need to ensure that adjustment is taking place and appropriate safeguards for the effective use of these resources are in place. However, if there is one lesson we could learn from years of experimentation with adjustment programs in Africa, it is that deflationary demand management policies and repeated devaluation of domestic currencies without giving due consideration to the rigidities prevailing in those economies have been a major cause of program failure. What is needed is structural adjustment programs designed in the context of medium and long term framework, stressing growth elements through rehabilitation of existing production capacity and its expansion.

Let me stress here an important point. The structural nature of the rigidities inherent in our economies and the depth of the imbalances therein require that the analysis of each country's situation be objective. It is also necessary that medium term projections be made and the various options explained to the authorities, together with all their implications. There are no ready-made solutions to Africa's problems because every country has some special characteristics and requirements. Patience and objectivity are therefore required in working out appropriate "policy packages" and this can only be done with the full and active participation of the authorities - an element which has been lacking in many African programs. If reason is required to support this statement, then I can do no better than quote Mr. Dallara on page 3 of his informative buff of January 23 on "Issues in the Implementation of Conditionality", where he says:

> "Without the willingness and capacity of national authorities to support and implement policy changes, external efforts to encourage such changes are unlikely to succeed regardless of the 'techniques of conditionality'".

A comprehensive structural program which has been formulated with the active involvement of the authorities will usher in a new era of cooperation as far as the Fund, World Bank and bilateral donors are concerned. Any effort that is made towards that new era is worthwhile and we can best do so not through pious hopes or issuing detailed blueprints but by recognizing local knowledge and experience which exist and by encouraging pragmatism and cost-effectiveness.

I do not think one is being very realistic by prescribing that policy reforms can be implemented within a fixed timeframe of six-monthly intervals. This approach will only promote paper implementation under which governments will be issuing sessional papers, draft statutes and administrative decrees just to conform with the benchmarks. It is the overall commitment of the authorities and the general direction they are pursuing that are important not the speed as measured in monthly terms. Nor are all these stipulations appropriate to a facility which is to be governed by the conditionality of the first credit tranche only. What the staff has done has been to adopt the extremely high conditionality attached to the use of upper credit tranches and they have acknowledged this on pages 19 and 20. In fact, the proposed program and monitoring mechanism, if accepted, would make the use of the SDA resources even more conditional than the use of Fund resources under a stand-by or EFF arrangement. Let me reiterate that the proposed conditionality for the use of the SDA resources is inconsistent with the spirit and letter of the Trust Fund, and is unacceptable to my authorities most of them being potential users of the SDA funds.

It should also be emphasized that the needed financial support to the adjustment effort of the users of the SDA resources is much greater than what the available resources can provide. I fully agree with the staff that "use of these resources will be fully successful only if they catalyze a substantial flow of other resources on appropriate - most often, highly concessional - terms". Therefore, substantial financing from the World Bank and donor countries, and from other creditors would appear to be essential for the success of adjustment. It is crucial that creditors and donors provide financial support in the form of refinancing, rescheduling and other forms of debt relief over a number of years.

I have considerable difficulties with some of the operational considerations proposed by the staff. I have already stated my opposition to subjecting the use of the SDA resources to the same type and level of conditionality and monitoring techniques attached to usual Fund arrangements, particularly of higher credit tranches. I am therefore against using performance criteria specified under Fund stand-by and EFF arrangements to serve as "benchmarks" for monitoring progress under the SDA arrangement. I have already stated my position that disbursement should be made annually and on the basis of annual economic program agreed upon with the authorities. It is also our view that countries using Fund resources under Upper Credit Tranches or having SAL with the World Bank should have automatic access to SDA resources on the basis of a brief description by the staff of the country's performance. I am also concerned about the way the Fund intends to treat the so-called "prolonged users" of Fund resources. It is my view that the Fund should not abandon any of its members or deny them the use of general resources so long as the member is meeting its obligations just because its recourse to Fund assistance has lasted a number of years.

Now on the issue of Fund-Bank collaboration. There is no doubt that collaboration between the two institutions is necessary if consistency and complementarity between their programs in borrowing countries are to be ensured. So far as Africa is concerned, close Fund-Bank collaboration is already a fact of life and the sub-Saharan Africa Facility has imposed an even stronger relationship between the two institutions. It is clear that some people want to see even closer ties between the two and because of this a word of caution may be in order. The Fund and Bank are different entities, and collaboration must not lead to impairment of the distinct roles of either institution. Nor should collaboration give rise to unnecessary complication of relations with member countries, or slow down the decision-making process or introduce elements of inflexibility and cross-conditionality which all developing countries have opposed. Indeed, in this connection, it is necessary to draw the Board's attention to paragraph 9(b) of the Interim Committee's communique which stresses. among other things, the need to avoid cross conditionality.

This leads me to the U.S. proposal which my authorities find fairly encouraging. They consider the proposal as indicative of an increasing attention by the U.S. Administration to the plight of the poorer countries of the world. They support the basic objectives of the U.S. proposal which, according to them, is an attempt to promote adjustment programs geared toward sustained economic growth. In principle, they consider the U.S. ideas as representing movement towards exploring possible avenues to assist low-income countries with protracted balance of payments problems. I note that the U.S. authorities in the latest version of the proposal have tried to respond positively to some of the concerns expressed by this chair and others on previous occasions. Despite the revision, I still have major concerns and reservations on the proposed approach. Indeed, my authorities believe that the IMF by its nature and in particular the Trust Fund reflows through the SDA is not the right forum for providing the financial support needed to promote the growth and development objectives that the U.S. and ourselves are trying to achieve in Africa. In our view, the World Bank and the already existing facilities such as IDA and the Special Facility for sub-saharan Africa are the right vehicles to promote economic growth.

Coming back to the specifics of the U.S. proposal, I would like to offer the following brief comments. First, although the idea of jointly negotiated programs by the Fund and the Bank is no longer explicitly required in the latest version of the proposal, my authorities consider that the initial concept of joint program has been maintained and the seeds of cross-conditionality remain in the suggested "policy framework". A joint mission from the two institutions visiting a country to discuss and draw up an agreeable "policy framework" and then jointly produce a paper to be simultaneously discussed and approved by the Executive Boards of the two institutions is not, in essence, much different from jointly negotiated programs. We would prefer the two institutions to act separately in promoting the type of adjustment they usually support, while continuing the present practice of including their staff members on each other's mission and to report the views of the said staff in papers to their respective Executive Boards.

Secondly, apart from the element of cross-conditionality, my authorities also believe that the economic program suggested in the U.S. proposal to accompany the use of the SDA resources will make such use highly conditional. In short, the same objections I raised against the degree of conditionality as proposed by the staff which goes well beyond the first credit tranche apply to the U.S. proposal.

Finally, my authorities note that, while the proposal mentions the possibility of mobilizing resources from other sources, there has been no clear commitment from anyone regarding these additional resources. In fact, my authorities are disappointed to note that in contrast to the other U.S. initiative on debt strategy the present approach aims at lumping together already existing resources readily available to potential users and in the process makes the use of such resources extremely conditional, and do not provide any additionality within the Fund though we have noted "some encouraging signs" of possible additional resources under the World Bank Group and bilaterial sources. We have also noted attempts to subject bilateral aid to the high conditionality contained therein. In view of all this we would recommend that SDA resources be administered in accordance with the Trust Fund instrument as originally intended. We find the U.S. proposal as containing so many new features and characteristics as to require a separate facility of its own to be established with additional new funds. When the facility is in place new criteria can be formulated for it along the lines of the U.S. proposal or whatever may be agreed. Perhaps this can be considered in the context of the proposed United Nations International Conference on the Economic Plight of Africa which is scheduled to take place next May. I should also recall here that the Development Committee is expected to consider a report on the resource problems of the region in its forthcoming meeting. We all know that the installation and implementation of far-reaching economic programs that will have the effect of bringing about structural changes in the economies of Africa require quite massive resources, among other things. Such coordination of efforts in our view is necessary for the impending exercise to be credible and to provide assistance of the needed magnitude.

To sum up my position, the SDA resources should be used in accordance with the Trust Fund Instrument and therefore should remain a quick disbursing and low conditionality facility. To facilitate growth in Africa larger resources from IDA, the World Bank and bilateral donors are needed and in the context of an international concerted effort.

Copies to Managing Committee

EXC/MC86-07

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THE SECRETARY OF THE TREASURY
WASHINGTON

January 31, 1986

For MC information
RECORD

E-1227

Dear Tom:

It is my pleasure to inform you that the United States hereby notifies the International Development Association that it will make a contribution of $71,775,000 to the Special Facility for Sub-Saharan Africa, pursuant to paragraph 2(a)(ii) of Resolution No. IDA 85-1 adopted by the Executive Directors of the Association on May 21, 1985.

We will make payment for this contribution by letter of credit, to be opened in the very near future.

Sincerely,

Jim

James A. Baker, III

The Honorable
A. W. Clausen
President
International Bank for
Reconstruction and Development
Washington, D.C. 20433

EXC/MC86-08

February 7, 1986 - 86/21

Statement by Mr. Dallara on the
Use of Resources of the Special Disbursement Account
Executive Board Meeting
February 11, 1986

Introduction

At the Seoul Interim Committee meeting, Secretary of the Treasury Baker stated that the United States was prepared to consider a bold approach concerning use of the resources of the Special Disbursement Account (SDA). This approach was aimed at fostering growth, adjustment and development in countries eligible to use Trust Fund reflows through enhanced Fund/Bank collaboration in the formulation and implementation of comprehensive economic programs which could catalyze additional financing.

The Interim Committee provided us clear guidance on the use of the Special Disbursement Account resources, indicating that these resources, which might be supplemented by other funds, should be used to provide additional assistance to low-income countries with protracted balance of payments problems. The Committee also decided that the assistance should be made available to countries "implementing economic programs designed to promote structural adjustment and growth in a medium-term framework." Furthermore, the Committee stated "given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, whilst avoiding cross-conditionality." The Committee asked the Executive Board to complete its work on this matter before its next meeting.

The task before us is to translate that general guidance into specific procedures and policies. It was with that objective in mind that my authorities conducted a series of consultations with other members to discuss the U.S. approach to this issue. The result of these consultations is a modified U.S. proposal that preserves the basic thrust of the original concept of providing financing in support of growth-oriented comprehensive economic programs, which address both macroeconomic and structural problems through a collaborative effort involving the member countries, the Bank and the Fund.

At the same time, the modified approach responds to a number of concerns raised during our consultations. In particular, an effort has been made to find an appropriate balance between the need for closer Fund/Bank collaboration on the one hand, and the need to avoid undue delays and preserve the unique functions and mandates of the two institutions, on the other hand. I believe that we have found that balance in our modified proposal. It is fully consistent with the guidance provided by the Interim Committee and the basic approach contained in the staff paper. However, it does put forward some precise modalities which can enhance Fund/Bank collaboration and the prospects for catalyzing and and using more effectively additional financing.

This statement does not comment on a number of issues covered in the staff paper, but rather focuses on issues arising, in particular, in connection with our proposal. I will make additional comments, as necessary, on the staff paper at the Board meeting.

Before outlining the various elements of this approach, I would like to address briefly two important issues that have been raised. First, the particular modalities for Fund/Bank collaboration contained in our proposal are presented within the context of the use of reflows to the SDA, and not for broader application to Fund/Bank relationships involving use of the Fund's general resources. Second, members have raised questions concerning what additional resources would be available from the World Bank group and bilateral sources to support these economic programs. The availability of resources from the World Bank group is a matter to be decided by the World Bank and its donors.

Recent discussions of the IDA Deputies offer encouraging prospects for an IDA contribution comparable to the amounts provided by the SDA resources. However, such an outcome will depend, inter alia, on the willingness of recipient countries to adopt comprehensive economic programs supported by effective Fund/Bank collaboration, such as that embodied in our proposal. I am of the firm conviction that our approach can involve "additionality" for countries prepared to adopt such growth-oriented programs, compared to financing that would be available to such countries in the absence of such an approach. Additional information concerning the amounts, types, and effectiveness of multilateral and bilateral financing in support of these programs is provided below.

The Modified U.S. Proposal

The following discusses important aspects and characteristics of the U.S. proposal for use of resources of the Special Disbursement Account.

1. Policy Framework

Policy Framework Paper: A key element of the proposal we have put forth is the policy framework paper. A mission, consisting of Fund and Bank staff, would work with a country eligible for use of SDA resources to develop a Policy Framework. This framework would involve an analysis of economic problems and prospects in a medium-term framework, and the formulation of consistent and supportive broad macroeconomic and structural policy objectives. The framework paper would outline priorities for attention and action and provide a broad perspective on how policies and actions, that are optimally interrelated as to timing and content, can enhance prospects for growth and adjustment in the medium term. Furthermore, it would contain Fund and Bank staffs' assessment of the country's financing needs and possible sources of finance to support comprehensive economic programs, including indicative levels of financing from the SDA and the World Bank group.

Timing: A number of Directors have expressed concern that this approach could result in lengthy delays in disbursement of SDA resources. We believe that the U.S. approach can be implemented in a way which streamlines the process of putting SDA programs into effect and limits additional administrative costs. Every effort should be made to take advantage of existing Fund procedures. Development of the Policy Framework might ideally coincide with IMF Article IV consultations, in that the Article IV consultations already cover much of the groundwork that would be needed for a framework paper, particularly in the macroeconomic areas. In these circumstances, we would envisage that a Bank team could join the Fund team following the Article IV discussions in order to develop the framework paper. The framework paper subsequently could be reviewed and approved by the Fund Board on the occasion of the Article IV discussion in the Board.

One could also envisage that a framework paper could be developed in conjunction with negotiation or review of a program involving the use of the Fund's general resources. Again, Bank staff would be part of the team involved in the actual formulation of the framework paper following the negotiation or review of the Fund program. In these circumstances, the Fund Board could consider the framework paper on the occasion of the Board discussion of the use of the Fund's general resources.

For a member country well placed to begin prompt negotiations for an SDA program, the framework paper could be developed during the same mission at which the actual SDA program is negotiated. If there were no pending Fund missions, then a mission, including Fund and Bank staff, would have to be scheduled or one could be arranged in conjunction with a mission of the World Bank in order to develop the framework paper. The framework paper could be considered at the Board simultaneously with consideration of an SDA program.

By a flexible application of the procedures outlined above, we believe that there would be a minimum of additional time needed for the development of the framework paper. Eventually, the framework paper could actually reduce the time associated with the negotiation of Fund and World Bank group resources, since development of the framework paper would facilitate the negotiation of specific commitments to be embodied in programs. The most fundamental issue of time, of course, is whether this approach can enhance the prospects for an early restoration of growth and payments viability. We believe that the U.S. approach can indeed enhance those prospects.

Content of Policy Framework Paper: The Policy Framework agreement would integrate both macroeconomic and structural policies in order to maximize the chances for growth and adjustment. The policy areas to be covered would be those suggested in the staff paper (see pages 16-18), as well as in some cases such possible areas as financial and labor market reforms. The actual policies included in any framework paper would be determined on a case-by-case basis, reflecting the particular circumstances and needs of the member. In specific cases, some policy areas will be more important than others, based on the team's analysis, the country's own priorities, and the progress already made in each area. Framework papers would present economic problems and prospects in a medium-term context, setting policy objectives, selecting areas for priority attention, and outlining rough timeframes for addressing specific problems. (Individual policy commitments by the member government in these various areas would only be made in subsequent loan arrangements negotiated by the member country with the Fund or the Bank.)

Fund/Bank Specialization: The Policy Framework mission would respect the traditional areas of expertise and responsibility of the Fund and the Bank. While there are some areas, especially structural ones, in which both institutions have been active, it is also true that there is a considerable degree of specialization between the two institutions. For example, the Fund has special expertise with regard to macroeconomic, exchange rate, and financial policies and reforms, while the Bank has long experience in microeconomic, developmental, and sectoral policies. Any questions of overlapping expertise could be resolved by the managements of the two institutions.

Fund/Bank Board Involvement: Subsequent to agreement on the framework paper by the staffs and managements of the two institutions and the member country, it would be reviewed and approved by the Fund's Executive Board, and ideally also by the Bank's Executive Board. The exact timing and procedures by which the Bank Board considers this paper will, of course, need to be determined by the Bank Board. However, our consultations indicate that the Bank Board could adopt procedures which would effectively provide the necessary Bank endorsement of the policy framework paper without delaying Fund consideration of the paper and disbursement of SDA resources. As we understand it, the Bank Board will consider this issue at a date in the very near future.

Review of Policy Framework Paper: The policy framework paper would be reviewed on an annual basis, revised as appropriate, and submitted to the Boards for their consideration in the same coordinated fashion as it was developed.

2. Program Negotiations

Separate Loan Negotiations: Once the Policy Framework is agreed, each institution would be expected to negotiate independent, but related, policy-based lending programs consistent with the overall framework, but within the procedural and policy guidelines of each institution. Program negotiation missions, therefore, would function much as they do today, which would mean inclusion, as appropriate, of one or two staff members from the Bank, if it is a Fund program, or from the Fund, if it is a Bank program. We could envisage, however, some cases where, if all parties agree (i.e., the country concerned, the Fund, and the Bank), there could be a full joint negotiating mission.

Duration of Programs: Comprehensive programs of macroeconomic adjustment and structural reform could be of three years' duration, as suggested in the staff paper.

Policy Commitments: Programs for use of SDA resources would be developed basically as suggested in the staff paper, with the priorities set forth in the framework paper providing a context for the program negotiations. As the staff paper indicates (page 16), the deep-seated nature of the structural problems faced by many of these countries suggests the need for comprehensive programs, involving macroeconomic and structural components. Annual programs would be expected to delineate in a more precise fashion the measures and the path by which the general aims are to be achieved. Aims in both areas would be clearly defined, and indicative targets would be specified in quantified terms, wherever possible, to allow monitoring of progress toward the goals of the program. Benchmarks would be established for major policy instruments and/or targets which would serve as a basis for semi-annual reviews of performance.

Links between Fund/Bank Programs: SDA and associated World Bank group programs would be complementary and mutually supportive. The need for direct incorporation of structural measures in SDA programs would naturally be a function, in part, of World Bank group involvement in particular policy areas. Successful performance under one institution's program would not be a condition for drawings under the other institution's program, but each institution would take into account progress being made across the range of policy areas.

3. Financing Needs and Prospects

Overall Financing Needs: Comprehensive programs involving macroeconomic and structural policies should be accompanied by financing from multilateral and bilateral sources, beginning, of course, with the SDR 2.7 billion of SDA resources. The total amount of SDA resources might be supplemented by other sources, as the Interim Committee communique noted. The framework paper would be expected to contain an estimate of overall financing needs, including estimated access to SDA resources, and would also contain indicative amounts and types of financing from World Bank group resources. Early identification, at the framework stage, of financing requirements and prospects of obtaining financing would help all creditors, including the Fund and the Bank, in their planning and would help to ensure consistency between economic programs and their overall financing. Any such indicative financing would be based on assumptions that the country would be prepared to meet the conditions involved in such loans.

World Bank Group Financing: World Bank group financing will, of course, be decided by the World Bank and its donors. IDA resources are expected to account for the largest portion of funding from the World Bank group. The key issues in this regard are the overall level of funding for the IDA8 replenishment and the amount of IDA7 and IDA8 funds which might be dedicated for lending in association with SDA resources or for policy-based funding in general. However, we are also hopeful that IDA resources could be supplemented by a modest amount of IBRD non-project lending in IBRD-eligible countries and annual allocations of perhaps $100 million of IBRD net income.

Recently, there have been some encouraging signs concerning the extent of World Bank group financial support in conjunction with reflows to the Special Disbursement Account. The Chairman's Summary Note following the January 27-28 meeting of the IDA Deputies contained the following passages:

-- A large majority of the Deputies "were prepared to accept that negotiations should begin within a negotiating range of $10.5 to $12.5 billion."

-- "The U.S. Deputy said that his current reference point was a range of $9 to $12 billion, but provided that certain adjustments in terms and other policies mentioned below [in the Chairman's Summary Note] could be achieved, he too would work to secure an outcome within the range of $10.5 to $12.5 billion."

-- "There was agreement among Deputies that the character of IDA as an institution predominantly financing specific investments should be preserved. There was, however, general recognition that in many of the recipient countries there was at the present time an urgent need to strengthen adjustment support lending so as to improve the policy environment for investment. In this context, in the expectation of a satisfactory level of replenishment, Deputies discussed the implications for IDA8 of proposals made subsequent to the Interim Committee discussions in Seoul for the use of IMF Trust Fund reflows, including the proposal of the United States. Deputies fully recognized that it was not within their jurisdiction to decide on these proposals or make recommendations on them. This was rather the task of the Boards of the Fund and the Bank. Provided these proposals were adopted, Deputies were of the view that any increment above $10.5 billion should be primarily designated for support of adjustment programs--especially in Sub-Saharan Africa--in conjunction with the Trust Fund reflows to the extent feasible. With respect to the $10.5 billion itself, Deputies agreed

> that the share devoted to the support of such programs should not be less than that in IDA 7 plus the African Facility, and could be used in a similar manner for eligible countries under the proposal as it might be adopted by the Boards."

Any final decision on the amount of IDA financing that might be available must await resolution of IDA issues and the conclusion of the IDA8 negotiations. However, if the IDA8 replenishment were to be approved in the $10.5 to $12 billion range and allocations made along the lines mentioned above, amounts available in support of SDA programs would be in a range comparable to SDA resources.

Bilateral Financing: The U.S. proposal envisages an important role for bilateral contributions to supplement the SDA and World Bank group resources. My government has expressed willingness to seek to provide a contribution, if other donors are willing to make equitable contributions. Several other governments have indicated a willingness to consider also making contributions. Bilateral contributions could be direct or could be made in association with SDA programs.

The Policy Framework concept could be a very useful source of information for bilateral donors as they undertake their bilateral aid planning, although decisions and financial contributions would, of course, be up to national authorities. Consultative Groups would be the most useful forum for making use of the Policy Frameworks. In order for the framework papers to be useful to aid donors and to catalyze financing, consideration could be given to meetings of Consultative Groups soon after negotiation of framework agreements. By making the policy framework paper available to potential donor governments, we would increase the likelihood that funds from those donors would be used in a manner that best supports the goals of the Policy Framework, which would also reflect the goals and objectives of the member country. After the Fund and Bank Boards have endorsed the conceptual framework for use of SDA resources and World Bank group complementary financing, some governments have indicated an interest in taking up, more specifically, modalities for coordination of national bilateral programs with financing extended under SDA-supported programs.

Conclusion

At the conclusion of the Board's first discussion of the use of resources of the Special Disbursement Account on September 13, 1985, the Chairman's Summing Up contained the following passage:

> "The background description offered by Mr. Mtei of the plight of the poorest countries which are in dire straits--in Africa in particular, but not only there--was received by the Board with great interest and sym-

> pathy. The countries on which the discussion concentrated are indeed experiencing deep-seated structural problems. Under the period covered by the Trust Fund, as many Directors stated, economic conditions and problems had intensified or worsened, and progress toward structural adjustment had been modest. The need for such adjustment is thereby made all the more acute."

I believe that there is a commonality of views that efforts made by low-income developing countries, supported by multilateral institutions and donor countries, have met with only limited success so far in bringing about sustainable economic growth and financial stability in such countries. This has led to growing frustration on the part of all parties involved; and I believe a widespread desire exists to address the basic causes of the lack of success.

While we recognize that some of the problems faced by these countries are outside their control and, to some extent, caused by exogenous factors, many of their problems can be addressed effectively. To do so successfully, countries need to adopt broad-based and carefully integrated adjustment and growth strategies, which include both macroeconomic and structural elements. Experience suggests that Fund programs, which have had considerable structural content, have proven to be the most successful in terms of bringing about needed adjustment with growth. It is incumbent upon us to use every opportunity to apply the lessons learned from our experiences.

The proposal that we have put forth can have substantial positive effects in many areas:

-- It can facilitate the negotiation, design and implementation of the comprehensive economic programs that are needed to enhance the possibilities for growth and financial stability over the medium term.

-- It can catalyze additional sources of concessional financing and enhance the effectiveness of the financing that is made available for low-income developing countries.

The need for strong action to address the protracted problems of low-income developing countries is urgent. The Interim Committee has given us a clear mandate. We believe that use of SDA resources in the manner and under the modalities suggested herein can be a most effective means of carrying out that mandate. We have before us a unique window of opportunity. I urge the Board not to let this opportunity pass us by.

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Background Info. for RECORD

Feb. 5/86
E-1227

EBS/85/283
+ Cor. 1
+ Cor. 2

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EXC/MC86-06

December 17, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Use of Resources of the Special Disbursement Account

Attached for consideration by the Executive Directors is a paper on the use of resources of the Special Disbursement Account (SDA), which is scheduled for Executive Board discussion on Wednesday, January 22, 1986.

Mr. Leddy (ext. 8332), Mr. Boorman (ext. 7858), or Mr. G. G. Johnson (ext. 8779) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Use of Resources of the Special Disbursement Account

Prepared by the Exchange and Trade Relations Department

.(In consultation with the Treasurer's, Legal, and Other Departments)

Approved by C. David Finch

December 13, 1985

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Use of Resources of the Special Disbursement Account

I. Introduction

The assets that become available as a result of the termination of the Trust Fund are to be transferred to the Special Disbursement Account (SDA). Of the total of SDR 3.1 billion scheduled to accrue to that account by April 1991 from Trust Fund loan repayments and interest, SDR 0.4 billion has been transferred to the Supplementary Financing Facility Subsidy Account. The remaining SDR 2.7 billion is to be used in accordance with the 1980 Executive Board Decision terminating the Trust Fund. 1/

A preliminary discussion on this subject was held on September 13, 1985 (EBM/85/141 and EBM/85/142) on the basis of a staff paper which presented some general considerations relating to the types of new arrangements which could be envisaged in light of the 1980 decision (EBS/85/183, 8/6/85). The Executive Board's deliberations were summarized by the Chairman (Buff 85/167, 9/19/85) and formed the basis for his report to the Interim Committee meeting in Seoul in October 1985.

The Interim Committee provided clear guidelines for the use of these resources in its Communiqué as follows:

a. "The total amount of these resources (about SDR 2.7 billion), which might be supplemented with funds from other sources, should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. In this connection, the Committee welcomed the statements made by the representatives of China and India that they would not avail themselves of the facility in the period 1985-91.

b. This assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework. These economic programs should be reviewed periodically. Given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, whilst avoiding cross-conditionality.

1/ See Paragraph 3 (b) of Decision No. 6704-(80/185) TR, December 17, 1980 which is reproduced in Annex I. The discussion and references to the Special Disbursement Account in this paper relate only to resources derived from repayment of principal and interest on Trust Fund loans and from income derived from the temporary investment of those reflows.

c. The terms of the use of the resources, such as the rate of interest and the period of repayment, should be similar to those applied to loans from the Trust Fund.

d. Such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows."

In view of the clear need for prompt financial support of appropriate adjustment policies in many of the countries that could be eligible to use these resources, the Executive Board was urged to complete its work on this matter, in light of the guidance provided by the Committee, before the Committee's next meeting.

In accord with the guidelines of the Interim Committee, this paper presents background for the Executive Board to consider decisions to establish specific procedures for use of the resources of the SDA. The following section suggests criteria to be used to determine the presence of a protracted balance of payments problem. These criteria are then applied to the list of IDA-eligible countries to indicate which of these countries, on the basis of information currently available to the staff, appear to be facing such problems. Section III describes a scheme for the commitment and disbursement of SDA resources to eligible countries that qualify for use of these resources. Some uncertainty exists as to both the amount and timing of the receipt of resources by the SDA, as well as to the extent to which members will make use of these resources. Moreover, the aims to be achieved through the use of such resources--especially the intended focus on structural adjustment over the medium term--impose additional constraints on the commitment and disbursement of SDA resources. In this paper, priority is given to a reasonably firm commitment of resources to members for a three-year period and to early initiation of disbursements of available funds to qualifying countries.

Section IV considers the nature of the policy programs to help foster structural adjustment that could be supported by the use of SDA resources. The relationship between the use of these resources and the Fund's general resources under existing facilities is examined in Section V, as is the question of access to these resources by prolonged users and by members with overdue obligations to the Fund. The financial terms to be associated with the use of these resources are also discussed in this section. In Section VI, modalities are suggested for enhancing the collaboration between the World Bank and the Fund in formulating policy programs in countries requesting use of these resources. In this connection, the elements of a proposal by the United States for joint Fund-Bank programs to be supported by the use of SDA resources in conjunction with resources from other sources, including bilateral donors, are described in Section VII. The last section of the paper indicates a possible time schedule under which the facility could begin operations.

The arrangement for the use of resources of the SDA proposed in the following sections may be summarized as follows:

--approximately SDR 2.7 billion would be available to IDA-eligible countries with protracted balance of payments problems; at present, the staff assessment suggests that about 45 of the IDA-eligible countries would qualify for use of these resources;

--use of SDA resources could be requested by countries presenting three-year programs of structural adjustment to be worked out with the Fund in close collaboration with the World Bank; annual financial programs would be agreed within these medium-term adjustment efforts to provide the environment required to foster successful structural and institutional reform;

--an initial minimum commitment of resources (as a percent of quota) would be made to qualifying countries for disbursement over a period of three years; the commitment would be made, subject to the availability of funds, on approval of a program for medium-term structural adjustment and a financial program for the first year; these commitments may be increased as information becomes available regarding inflows to the SDA, the number of members that qualify for use of these resources, and the timing of disbursements;

--one sixth of the initial three-year commitment of resources would be disbursed on approval of an arrangement; subsequent disbursements would occur at approximately six-monthly intervals either on the occasion of successful completion of a review of progress under a program or an agreement on a subsequent annual financial program; and, finally

--as in the case of Trust Fund loans, repayments would be made in ten equal semiannual installments over 5 1/2-10 years and loans would bear interest at 1/2 percent per annum.

With substantive agreement by Executive Directors on the major elements of these proposals, the staff would prepare a further paper elaborating the details of the facility's operations and proposing a decision for consideration by the Board around mid-March 1986. Adoption of such a decision would provide the necessary legal framework for use of SDA resources and a report would be prepared to so inform the Interim Committee. On this basis, it would be possible to begin discussions with eligible member countries that might utilize these resources to more clearly determine that they are facing protracted balance of payments problems. It might be anticipated that some eligible member countries that are already using the Fund's general resources could qualify fairly quickly for use of these resources and, in such cases, disbursements against the first annual commitments--tentatively estimated at about 15 percent of quota for the first year--could begin as early as May 1986.

II. Eligibility for Use of the Resources of the Special Disbursement Account

The Interim Committee has indicated that the resources of the SDA are to be used to provide additional balance of payments assistance to IDA-eligible countries that face protracted balance of payments problems. Currently there are 55 member countries that receive funds from IDA (Table 1). This list could serve to define basic eligibility for the use of SDA resources, but the Board would retain authority to amend this list, independent of action taken by the World Bank.

To qualify for the use of SDA resources, an IDA-eligible country would have to be in need of such resources and to face a protracted balance of payments problem. 1/ The determination of the existence of a protracted balance of payments problem would involve examination of past, current, and prospective balance of payments developments. Such an assessment would need to take into account various aspects of external performance, since a determination of the severity of an external imbalance cannot be based on any single objective indicator. An unsustainably large current account deficit, for example, need not constitute evidence of a protracted problem, if the sources of the deficit can reasonably be expected to be reversed over a relatively short period, given the country's external prospects and its ability to implement timely and effective adjustment policies. A small deficit, on the other hand, may reflect severe constraints imposed by limited availability of external finance or foreign exchange reserves rather than an absence of balance of payments problems.

Thus, besides the behavior of the current account deficit, evidence of a protracted balance of payments problem would be sought in the behavior of other current account indicators, such as a stagnant or declining volume of exports, a depressed volume of imports, or a deterioration in the terms of trade; in external finance indicators such as deteriorating access to capital markets or rising costs of debt service; and in declining reserves. Such developments could be expected to be associated with stagnant or declining economic activity. Assessment of the behavior of these indicators would take account of both the magnitude and the duration of any unfavorable developments. Protracted balance of payments problems, moreover, would often be reflected in difficulties in undertaking an orderly process of adjustment, which could be evidenced by tightened exchange restrictions, payments arrears, or prolonged use of Fund resources.

Analysis of these indicators would be both retrospective and prospective, and would take account of other factors that would

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1/ The additional requirement to qualify for use of these resources--presentation and approval of a medium-term program of structural adjustment--is discussed in Section IV of this paper.

Table 1. Low-Income Developing Countries
Eligible for IDA Lending
(December 1985)

Country	Fund Quota	World Bank Status 1/	1983 Per Capita Income
China, P.R. of	2,390.9	Blend	300
India	2,207.7	Blend	260
Pakistan	546.3	Blend	390
Zaire	291.0	IDA	170
Bangladesh	287.5	IDA	130
Zambia	270.3	Blend	580
Sri Lanka	223.1	Blend	330
Ghana	204.5	IDA	310
Viet Nam	176.8	IDA	...
Sudan	169.7	IDA	400
Kenya	142.0	Blend	340
Burma	137.0	IDA	180
Tanzania	107.0	IDA	240
Uganda	99.6	IDA	220
Bolivia	90.7	IDA	510
Afghanistan	86.7	IDA	160
Senegal	85.1	IDA	440
People's Democratic Republic of Yemen	77.2	IDA	520
Liberia	71.3	IDA	480
Ethiopia	70.6	IDA	120
Madagascar	66.4	IDA	310
Mozambique	61.0	IDA	150
Guinea	57.9	IDA	300
Sierra Leone	57.9	IDA	330
Mali	50.8	IDA	160
Guyana	49.2	IDA	520
Somalia	44.2	IDA	250
Haiti	44.1	IDA	300
Rwanda	43.8	IDA	270
Yemen Arab Republic	43.3	IDA	550
Burundi	42.7	IDA	240
Togo	38.4	IDA	280
Nepal	37.3	IDA	160
Malawi	37.2	Blend	210
Mauritania	33.9	IDA	480
Niger	33.7	IDA	240
Burkina Faso	31.6	IDA	180
Benin	31.3	IDA	290
Chad	30.6	IDA	85
Central African Republic	30.4	IDA	280
Lao People's Democratic Republic	29.3	IDA	140

Table 1 (concluded). Low-Income Developing Countries
Eligible for IDA Lending

Country	Fund Quota	World Bank Status 1/	1983 Per Capita Income
Kampuchea, Democratic	25.0	IDA	...
Equatorial Guinea	18.4	IDA	200
The Gambia	17.1	IDA	290
Lesotho	15.1	IDA	460
Vanuatu	9.0	IDA	640
Djibouti	8.0	IDA	310
Guinea-Bissau	7.5	IDA	180
Western Samoa	6.0	IDA	620
Solomon Islands	5.0	IDA	640
Cape Verde	4.5	IDA	360
Comoros	4.5	IDA	260
São Tomé and Principe	4.0	IDA	310
Bhutan	2.5	IDA	125
Maldives	2.0	IDA	450
Total	8,758.6		

Sources: World Bank; and IMF staff estimates.

1/ Indicates eligibility for World Bank loans: IDA only or a "blend" of IDA and IBRD lending. These categories are subject to change as countries' circumstances change. "Blend" countries exclude those with blended finance for "enclave" projects, where repayment is guaranteed by an independent entity.

influence a country's path toward external adjustment, as measured, for example, by projected medium-term financing gaps. The analysis would need to allow for the fact that external prospects and the ability to adapt to them vary considerably from country to country. Moreover, the fact that a country's medium-term prospects are relatively favorable because of a determined effort to deal with past protracted problems would not necessarily preclude access to these resources if a continued structural adjustment effort was required that would extend over a number of years, during which economic growth would continue to be constrained to less than its potential.

It is proposed that upon request for use of SDA resources by an IDA-eligible country, the criteria delineated above would be employed to determine if, at the time of that request, the member qualified for use of these resources. Based on information currently available, the staff has conducted a preliminary review of the situation in the 55 IDA-eligible countries which suggests that 45 of those countries show obvious signs of protracted balance of payments problems (some relevant indicators for IDA-eligible countries are shown in Table 2). Typically, among these 45 countries are those that are far from having adjusted to the adverse external developments of the late 1970s and early 1980s; in particular, the worsening of the external terms of trade and the sharp increase in international real interest rates. Although corrective policies have been initiated in some of these countries, sometimes with the support of Fund resources, adequate adjustment has been made particularly difficult by the structural rigidities which characterize many of these economies and by the political constraints to implementation of effective policies. The severity of repeated exogenous shocks (both internal and external in origin) has also played an important role. Unsatisfactory export volume performance and the preemption of foreign exchange receipts by increased debt service payments have imposed severe constraints on imports and on economic growth.

In a large majority of these 45 countries the current account deficit in 1984 exceeded 10 percent of GDP, implying heavy reliance on external financing, including debt relief and other extraordinary financing. In a few of the remaining countries, the deficit was contained by macroeconomic policies, but many relied on restrictive exchange and trade systems. Export volume declined in almost half of the 45 countries between 1977 and 1984, while in most of the others the increase was only marginal and/or inadequate in view of the deterioration in the external environment. External payments arrears at end-1984 were reported for two thirds of these countries, an indication of severe balance of payments strain; wide parallel markets in foreign exchange also existed in almost half of them. The external payments problems of most of these countries, as well as inefficiency in the internal allocation of resources, has also been reflected in disappointing growth performance. While national accounts data are weak in many of these countries, those data that are available indicate that real per capita GDP declined or showed only a marginal increase (below 1 percent per annum) in all but a few of these countries.

Table 2: IDA-Eligible Countries: Selected Economic Indicators 1/

(In percent)

	Compound Growth Rates (1977-84)					Ratios to GDP (1984)			Debt Service Ratios (1984) 2/		Official Foreign Reserves	External Payments
	Real GDP	Real GDP per capita	Export volume	Import volume	Terms of trade	Current account	External debt	Debt to official creditors	Scheduled	Actual	(in Weeks of Imports, End-1984)	Arrears End-1984 3/
Afghanistan	1.2	-1.4	-0.4	4.4	7.2	-5.9	30.7	30.7	...	...	20.1	*
Bangladesh	3.8	1.5	2.7	3.2	-0.5	-8.3	40.9	39.4	23.6	23.6	7.3	--
Benin	4.3	2.2	-0.1	-5.1	-1.9	-9.0	68.3	27.3	42.8	21.9	0.6	*
Bhutan	5.3	2.5	...	...	...	-30.0	1.0	1.0	1.5	1.5	30.0	--
Bolivia	-2.5	-5.3	-5.2	-7.7	4.2	-2.8	75.8	28.4	147.1	85.6	39.9	*
Burkina Faso	2.5	0.4	2.3	-0.6	-2.6	-20.0	52.3	47.7	13.4	13.4	22.7	*
Burma	6.1	4.0	8.6	11.1	-0.5	-4.5	36.6	30.5	38.9	38.9	4.8	--
Burundi	-0.3	-2.2	10.4	4.9	-17.5	-17.6	37.7	35.0	11.7	11.7	7.4	--
Cape Verde	4.4	3.3	7.8	10.1	3.1	-42.1	97.7	97.7	8.8	8.8	...	--
C.A.R.	1.2	-0.9	2.5 4/	0.3 4/	-6.0 4/	-22.1	51.6	45.4	11.6	7.1	20.2	*
Chad	-3.4	-5.5	-1.5	-5.3	-9.1	-15.1	21.6	25.2	5.0	1.9	21.0	*
China	8.9	7.5	13.1	16.9	1.9	0.7	2.5	1.5	3.9	3.9	23.2	--
Comoros	5.2	2.2	...	...	...	-83.1	...	117.4	5.3	5.3	...	--
Djibouti	2.8	-1.9	...	...	...	-18.8	22.0	9.3	2.8	2.8	...	--
Equatorial Guinea	0.7	-1.7	-0.8	14.1 4/	-3.2 4/	-12.4	132.8	102.1	111.6	47.7	6.1	*
Ethiopia	2.5	-0.1	7.3	7.9	-6.4	-9.0	32.1	27.7	13.5	13.5	3.9	--
Gambia, The	3.6	0.1	1.4	5.8	-4.0	-19.1	133.1	116.7	31.6	22.3	2.8	*
Ghana	-0.2	-3.5	-8.2	-2.2	-5.1	-2.1	...	7.8	83.5	36.7	14.7	*
Guinea	2.0	-0.3	2.9	5.8	1.0	-8.7	60.0	60.0	22.1	17.9	...	*
Guinea-Bissau	9.9	6.4	-1.5	5.1	6.8	-34.4	94.8	74.3	66.7	66.7	...	*
Guyana	-2.6	-5.5	-3.8	-11.9	-9.0	-22.5	188.7	123.0	56.3	17.4	1.2	*
Haiti	2.2	0.1	5.7	0.4	0.9	-3.4	35.0	23.0	8.6	8.6	4.0	*
India	4.6	2.2	--	4.1	-2.5	-1.4	14.1	10.7	15.7	15.7	23.0	--
Kampuchea, Democratic	2.7	...	...	...	...	...	...	...	...	...	...	--
Kenya	3.8	-0.8	-1.9	-4.7	-6.5	-5.2	53.8	34.2	23.3	23.3	14.3	--
Lao P.D.R.	5.3	2.4	...	...	...	-9.2	44.2	43.9	33.2	33.2	3.8	--
Lesotho	1.6	-0.1	10.0	1.6	-3.0	-24.4	51.1	47.9	3.4	3.4	6.7	--
Liberia	-0.4	-3.6	0.5	-7.1	-6.1	-14.0	84.3	62.0	17.3	16.8	0.6	*
Madagascar	-0.3	-3.0	-3.0	-5.6 4/	-1.1 4/	-11.7	87.1	65.3	79.7	24.7	8.8	*
Malawi	3.0	-2.2	5.0	-4.3	-8.1	-8.1	79.7	50.7	26.1	26.1	9.8	--
Maldives	9.0	5.3	17.5	26.4	4.0	-37.1	110.2	55.2	21.7	21.7	4.4	--
Mali	1.2	-1.4	2.2	1.2	-1.0	-20.9	119.9	116.6	13.6	8.8	6.9	*
Mauritania	1.6	-1.3	9.9	-0.2	-5.0	-33.4	175.1	146.5	38.8	38.8	15.0	*
Mozambique	...	...	...	...	...	-23.6	91.6	...	173.1	25.7	1.6	*
Nepal	3.2	0.3	1.1	8.0	-1.8	-7.1	17.6	17.0	4.6	4.6	8.5	--
Niger	0.8	-2.1	11.6	0.1	-6.1	-11.5	65.6	39.6	61.9	46.7	16.7	*
Pakistan	6.5	3.5	7.7	8.0	0.1	-5.4	34.1	32.1	14.3	13.9	9.6	--
Rwanda	4.2	-0.4	3.7	4.5	-8.2	-9.6	17.7	16.9	5.7	5.7	21.0	--
São Tomé and Principe	-5.4	-6.7	-1.0	3.2	-9.8	-59.3	151.0	121.9	27.5	27.5	...	*
Senegal	1.6	-1.6	-5.8	-3.2	0.4	-17.5	88.8	60.9	32.9	23.5	0.3	--
Sierra Leone	2.7	--	-2.5	-6.9	-9.1	-4.7	32.4	33.0	51.0	35.6	2.3	*
Solomon Islands	4.6	1.1	11.4	7.7	-4.2	-5.2	33.0	18.8	6.0	6.0	47.7	--
Somalia	2.6	-3.7	-7.3	5.4	1.2	-34.8	74.1	70.6	53.5	2.1	0.8	*
Sri Lanka	5.7	3.8	4.3	10.9	-3.3	-3.6	52.0	36.2	14.9	14.9	14.7	--
Sudan	1.7	-1.4	-0.7 4/	-7.8 4/	-9.6 4/	-10.9	122.3	103.9	101.5	18.4	0.7	*
Tanzania	0.6	-2.6	-7.1	-8.4	1.4	-10.6	70.5	67.3	43.7	43.7	1.0	*
Togo	0.1	-2.6	-1.6	-4.9	2.3	-16.3	111.4	100.3	52.6	31.0	42.6	*
Uganda	0.9	-1.9	2.5	-5.9	-15.7	-3.1	35.5	24.5	35.0	35.0	...	*
Vanuatu	4.3	1.5	2.6	-6.9	-5.8	-14.3	4.5	...	1.9	1.9	8.2	--
Viet Nam	3.0	0.6	...	...	...	-6.0	37.1	34.8	50.2	24.8	0.5	*
Western Samoa	1.7	0.9	1.5	1.3	-2.6	-11.2	75.6	72.7	20.5	20.5	10.4	*
Yemen Arab Republic	6.2	4.1	...	...	...	-13.5	54.3	54.2	8.6	6.4	11.2	--
Yemen, P.D.R.	3.3	0.3	...	...	...	-23.0	100.9	94.7	4.1	4.1	18.7	--
Zaire	0.2	-4.2	0.7	-8.7	-2.7	-8.9	95.0	76.3	45.6	25.3	15.3	*
Zambia	-0.2	-2.6	-2.1	-7.1	-7.2	-9.7	157.1	139.9	69.5	42.3	4.1	*

Source: Fund staff estimates, based on data provided by country authorities.

1/ Data are not fully comparable across countries. Fiscal year data used in some cases.
2/ Debt service payments in percent of exports of goods, services, and net private transfers.
3/ Existence of external payments arrears at end-1984 is indicated by an asterisk.
4/ 1978-1984.

For most of the 45 countries, achievement of a viable external payments position over the medium term is subject to substantial uncertainty, both because of the size and nature of their external imbalances and because the constraints on economic policies which characterize many of these countries tend to lengthen the adjustment process. A few countries, including Kenya and Malawi, although severely affected by adverse external conditions, have been able to avoid large imbalances in their external accounts largely through the pursuit of prudent financial policies. However, growth in such countries has been adversely affected by exogenous developments, particularly the sharp deterioration in their terms of trade.

Of the other 10 countries, the People's Republic of China and India have indicated that they would not avail themselves of SDA resources during the period of reflow of Trust Fund loans, i.e., between 1985 and 1991. The remaining 8 countries (Bhutan, Burma, Cape Verde, Maldives, Pakistan, Solomon Islands, Sri Lanka, and Yemen Arab Republic) have had increases in per capita income over the period 1978-84, ranging from 1.1 percent annually in the case of Solomon Islands to 5.3 percent in the case of Maldives. With the exception of two countries (Bhutan and Yemen Arab Republic) for which no detailed trade data are available, export volume growth was substantial for all of these countries during the same period, ranging from an annual rate of 4.3 percent for Sri Lanka to 17.5 percent for Maldives. Moreover, these countries have not experienced a compression of imports during this period; import volume rose at an annual rate of over 7 percent in the countries for which data are available. Furthermore, these countries have generally not faced serious external debt problems: although the ratio of external debt to GDP in 1984 was around 100 percent in two of these countries (Cape Verde and Maldives), their debt service ratios were comparatively low. Only in the cases of Burma (whose ratio, at 39 percent, was high) and Maldives did the debt service ratios exceed 15 percent.

Although these eight countries have registered satisfactory external performance on the basis of historical indicators, some of them are not free of current or potential balance of payments problems. This is particularly the case for Burma, where the underlying external position is weak, and for Pakistan and the Yemen Arab Republic both of which currently face serious, although not necessarily protracted, balance of payments problems. A determination that these countries in particular face a protracted balance of payments problem would depend on an assessment that, even with a timely introduction of appropriate adjustment policies, the achievement over the medium term of a viable external payments position would still be subject to exceptional uncertainty. The remaining five countries are particularly sensitive to exogenous shocks (both external and internal in origin) and also have relatively narrow production and export bases.

Thus, while the available evidence does not make all of the IDA-eligible countries obvious candidates for use of these resources, this conclusion would have to be confirmed in each individual case as requests for use of such resources are received. Moreover, the balance of payments prospects for some of the countries not obviously facing protracted problems in their external accounts could deteriorate, inviting a reconsideration of their circumstances.

III. Commitment and Disbursement of Resources of the Special Disbursement Account

Resources have already begun to accumulate in the Special Disbursement Account. Inflows from Trust Fund loan repayments and interest on those loans are scheduled to continue until April 1991. Cumulative receipts in the SDA by that date are projected to total SDR 2,687.9 million (Table 3). In addition to these amounts, undisbursed balances in the account will be invested and earnings will add to loanable resources. At the same time, however, delays in payment of Trust Fund obligations would delay or possibly reduce actual receipts of the SDA. As of December 2, 1985 overdue Trust Fund obligations totaled SDR 41.2 million, 6.4 percent of amounts that had fallen due as of that date. 1/ By end-June 1986 balances in the SDA are estimated to be on the order of SDR 500 million, assuming full settlement of overdue Trust Fund obligations.

Disbursements from the SDA will be constrained to amounts actually on hand in the Account. Therefore, the uncertainties associated with inflows--especially the possibility of overdue obligations--suggest caution in the commitment of such funds. Moreover, as it is anticipated that commitments are likely to exceed balances held in the Account at the time those commitments are made, they will need to be made subject to the availability of funds. At the same time, the urgency of the problems facing eligible countries argues for early commitment and initiation of disbursements, so long as safeguards for the effective use of those resources are in place.

Annual commitments of resources to qualifying countries, on the basis of funds actually received, would reduce uncertainties for the Fund in managing the SDA and, to some extent, for members. However, such a short time horizon would create substantial uncertainty for a recipient country attempting to plan and sustain an adjustment effort--including structural reforms--over the medium term. Recipient countries need a relatively assured flow of external resources to facilitate adequate implementation of planned reforms. Despite the relatively small volume of resources available, reasonable confidence in a minimum expected flow of funds over the medium term may increase the commitment of authorities of eligible countries to the policies these resources are intended to support. Moreover, there is a logic to committing funds in concert with the medium-term policy initiatives to be associated with use of SDA resources. This takes on added importance if additional

1/ Including reflows already transferred to the SFF Subsidy Account.

Table 3. Projected Receipts of Trust Fund Loan Repayments and Interest in the IMF Special Disbursement Account
(As of December 2, 1985)

(In millions of SDRs)

	Interest Payments	Loan Repayments	Cumulative Receipts 1/
Balances held in the Special Disbursement Account			184.6
Overdue obligations	1.0	40.2	225.8
1985			
December	6.3	--	232.1
Total remainder 1985	6.3	--	
1986			
January-June	5.6	262.4	499.8
July-December	4.9	297.9	802.4
Total 1986	10.5	560.3	
1987			
January-June	4.1	297.9	1,104.2
July-December	3.4	294.8	1,402.0
Total 1987	7.5	592.7	
1988			
January-June	2.7	282.6	1,687.2
July-December	2.0	267.9	1,956.8
Total 1988	4.7	550.6	
1989			
January-June	1.5	213.8	2,171.9
July-December	1.0	200.9	2,373.8
Total 1989	2.4	414.8	
1990			
January-June	0.5	161.2	2,535.3
July-December	0.2	104.8	2,640.2
Total 1990	0.7	266.0	
1991			
January-April	0.1	47.6	2,687.9
Total 1991	0.1	47.6	

1/ Including overdue obligations. Figures for cumulative receipts reflect deductions totaling SDR 2 million during 1986-90 for repayment of loans that had been extended to the Trust Fund.

commitments from donors can be secured to associate aid flows with the use of these resources.

These and other considerations suggest a multiyear framework for the commitment and disbursement of SDA resources covering the length of the policy horizon of agreed programs. At the same time, however, there would be a large degree of uncertainty associated with both the formulation of policy programs and projections of the resources potentially available to each qualifying country over the entire period of Trust Fund reflows, i.e., a period that extends as far as 1991. Thus, it may be useful to structure the proposed arrangement in a way which allows a commitment of resources to qualifying countries for a somewhat shorter period, say, three years. The time pattern of projected reflows to the SDA is consistent with consideration of such a shorter period. Moreover, three years may represent a reasonable policy planning horizon for countries making use of these resources and may be a more realistic time frame for bilateral donors in a position to associate aid flows with these arrangements (see below).

As regards amounts to be committed to individual countries, it is suggested that potential commitments be determined initially in relation to members' quotas, subject to balance of payments need, as a means of assuring potential access to each eligible member on a uniform, Fund-related basis. As is discussed further below, such an approach, while providing opportunities for access to all eligible members on a uniform quota-determined basis, would not preclude the possibility of larger access for members that qualified for use of the facility's resources at an early stage and remained qualified to receive disbursements throughout the life of their arrangements.

Several factors make difficult the determination of a precise level of resources which could be committed to qualifying countries from the SDA even over a period of three years. There are substantial uncertainties besides those associated with inflows to the SDA. In particular, the number (and quotas) of eligible countries that will eventually qualify for use of these resources, as well as the timing of approval of qualifying programs, is not known.

The two members with the largest Fund quotas among the IDA-eligible countries have indicated that they will not make use of the resources of the facility during the period 1985-91. Moreover, of the remaining eligible countries it can be expected that some will not qualify immediately for use of these resources. Thus, commitments of resources to member countries will not occur simultaneously and the timing of disbursements will be linked to the timing of the three-year program of the individual member. The longer the delays in approving individual arrangements, the further into the future commitments in support of three-year programs would extend, and the slower the funds available to the SDA would be disbursed. In addition, the possibility that some eligible countries may never qualify raises the possibility that larger amounts would be available for commitment to those that do. The urgency of the problems facing many of these countries would argue for enlargement of the financing made available for those that do qualify at an early stage. On the other hand, it also seems desirable for the facility to retain sufficient flexibility to provide meaningful assistance to members that may qualify only after some, perhaps considerable, delay. This latter consideration would argue that certain minimum amounts should be reserved for potential use by all eligible countries except those that have undertaken not to use the facility.

It is proposed to address these problems and uncertainties through arrangements that would reserve a certain minimum amount for each potential user of the facility's resources pending a general review of the facility's operations, but which would also permit some enlargement of commitments above the minimum over time, in light of actual experience with commitments, disbursements, and inflows to the facility. Approximately midway through the period 1986-91, a general review would be undertaken to assess the facility's operations and to determine whether sufficient resources remained uncommitted to permit a second "round" of lending operations.

Such arrangements could work in the following way: 1/

1. Initial commitments

At the time the facility begins operations and on the basis of the list of eligible countries, excluding those that have undertaken not to use the facility, the staff would calculate a minimum commitment that could be made to each country for a three-year program using prudent assumptions about reflows to the account and the timing of qualification of eligible countries. For example, it could be assumed that all eligible countries (other than China and India) would qualify immediately following the initiation of operations by the facility, which would imply that disbursements under these initial arrangements would be completed by end-1988 or early 1989. Taking account of the resources projected to be available for disbursement by end-1988 (approximately SDR 1,957 million) and the quotas of eligible members (except China and India) totaling about SDR 4.2 billion, three-year commitments could be made on this basis in amounts equivalent to about 47 percent of member's quotas, slightly over 15 percent of quota on an annual basis.

Alternatively, a somewhat slower pace of qualification by members might be assumed at the outset. For example, it might be assumed that members accounting for half of the quota total mentioned above would

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1/ For illustrative purposes, the discussion in the paragraphs below assumes that disbursements under the facility could begin at about mid-1986. The exact timing for initiation of operations would be fixed at the time of the decision by the Executive Board on the facility's establishment.

qualify at the outset and the remaining members only after a delay of, say, six months. On this basis, it would be possible to take into account reflows to be received up to mid-1989, which would permit a three-year commitment rate of about 52 percent of members' quotas. Assumptions along the lines of this alternative might be used if preliminary discussions with members provided firm information on the possible timing of arrangements. Also, if some countries in addition to China and India were to undertake not to use the facility's resources, the amounts potentially available for other eligible members would be increased. An early indication of this prospect would allow more confident commitments of larger amounts to qualifying countries. 1/

2. Possible enlargements of commitments

The likely delays in approval of arrangements would have two effects. On the one hand, uncommitted and undisbursed funds would accumulate in the SDA. On the other hand, additional reflows would become available to Fund arrangements approved after mid-1986, since disbursements under such arrangements would extend beyond end-1988 or early 1989. In order to encourage members to initiate adjustment programs at an early stage and to reduce the accumulation of uncommitted and undisbursed balances in the SDA, the experience with commitments, disbursements, and inflows to the Account would be reviewed annually by management, with a view to increasing commitments to members actually qualifying for use of the facility. For example, after one year of operations it would be known how many countries had already qualified for use of SDA resources and, of course, what actual inflows and disbursements had been. It would also be known at that point that an additional year's inflow of funds to the SDA would be available to fund the later years of arrangements for member countries qualifying for programs only after the first year of operations. The availability of this additional funding would permit a recalculation and enlargement of the amounts that could be newly committed to qualifying countries, a comparable augmentation of commitments already made, and a higher level of disbursements to all qualified countries in the following years. The same exercise would be repeated after the second year of operations of the facility, taking into account the remaining reflows projected to be received by the facility through 1991.

1/ The need for commitments to be made subject to the availability of funds, in light of the possibility of delays in members' settlement of their Trust Fund obligations, has been mentioned above. It would also need to be recognized that, should the rate of commitment be faster than assumed in the initial calculations, the facility could become overcommitted in relation to projected reflows even without taking account of the possibility of delays in settlement. Members would need to be aware that there would be a possibility of delays or reductions in disbursements for this reason, and the provisions of the facility and the loan agreements with members would need to make allowance for this possibility.

During the three years of an initial arrangement with a member country an upper limit would need to be placed on that country's access to SDA resources, including possible enlargements of commitments, in order to protect the availability of resources for other countries that might be late in qualifying to use these resources. This limit would be equivalent to the country's quota share of the total of reflows projected for the life of the facility (e.g., on the basis of the SDR 4.2 billion quota total mentioned above, about 64 percent of quota).

3. Review of operations

This framework would permit a substantive review of the operations of the facility toward the end of 1988 and determination of the disposition of any uncommitted resources remaining in the Account. If, as would be hoped, the majority of countries had qualified by that point, most resources (even those projected to become available for disbursement only in the fourth or fifth years) would already have been committed and undisbursed balances would be at relatively low levels. If, however, a significant number of countries had not qualified by that time and substantial uncommitted resources remained available, this review would permit a substantive reassessment of the operations of this facility and a second round of lending operations could be considered.

4. Disbursement and release of committed funds

Countries will be expected to present annual programs under their three-year arrangements, with such programs subject to six-monthly reviews and disbursements (see below). Delay in agreement on an annual program or in satisfactory completion of a review would delay disbursement of SDA resources. Delay beyond the end of a six-monthly period specified for a review would require agreement on a new annual program and would lead to a loss of the resources originally designated as available for that six-monthly period. This procedure would, nevertheless, still imply completion of the three-year arrangement within the period originally anticipated. Any resources lost to a country in this fashion would accumulate with other resources in the Special Disbursement Account. Such amounts would become available for recommitment, along with other uncommitted resources, on the basis of the annual recalculations or as a result of the substantive review of the facility.

The arrangements outlined above would attempt to balance the various uncertainties relating to the rate of use of the facility's resources, the merits of providing substantial financing to countries that qualify at an early stage, and the desirability of retaining scope for the facility to respond also to the needs of countries qualifying late. There would be incentives under this design for countries to qualify early and remain in continuous compliance with the conditions established for use of these resources. These incentives would include the possibility that, depending on the availability of uncommitted resources at the time of the substantive review of operations, such countries might qualify for new arrangements in a second round, leading to total financing from the facility for these countries in excess of the amounts in relation to quota indicated above.

IV. Programs to be Supported with Special Disbursement Account Resources

The deep-seated nature of the structural problems confronting many of the poorest countries suggests the need for a comprehensive approach to the resolution of these problems. Measures to restore or preserve financial stability will be necessary elements of such an approach. However, stabilization alone may well be insufficient to bring about a substantial improvement in a country's economy if structural impediments continue to inhibit the supply response in the economy. Adjustment will be the more protracted the weaker the ability of the economy to redirect in a flexible manner currently misallocated resources and to absorb idle resources into productive activities so as to restore growth. Thus, policies must be framed in such a way as to assure that resources are not inhibited in their movement to more productive sectors and that mechanisms exist to signal the appropriate redirection of such resources.

1. Structural adjustment

Efforts to substantially lessen structural impediments to growth are likely to require both strong initial measures, as well as a sustained effort over what may be a rather long period. As described in the previous section, it is proposed that SDA resources be reasonably firmly committed to countries for a period of three years in support of a policy program to extend over the same period. It is envisaged that a program of structural adjustment would be agreed covering the full three years, with the aims of such a program clearly defined and indicative targets--in quantified terms, wherever possible--specified to allow a monitoring of progress toward those aims.

The content of structural adjustment programs would be worked out in close collaboration with the World Bank (see Section VI) and would be expected to contain, inter alia, some of the following elements:

- a schedule for removing or correcting major disincentives or distortions. This might include action on the exchange rate--including, where appropriate, measures aimed at the unification of multiple rates--the introduction of a greater degree of market determination in prices and interest rates, and the liberalization of the exchange or trade system;

- measures aimed at eliminating the drain on the budget from the public sector by rationalizing its structure, including, especially, the reform of public enterprises to ensure that they contribute to the efficient mobilization and allocation of resources;

- specification of an investment program, which ensures its consistency with macroeconomic projections and the availability of financing, and the establishment of mechanisms or procedures for the assessment and approval of projects;

- reform of private investment approval mechanisms, including those related to foreign investment, where such mechanisms are judged to have inhibited the efficient allocation of investment resources.

Of course, programs would have to be tailored to the specific circumstances and problems confronting individual countries and additional elements may be appropriate in certain cases.

Under such programs, some reforms may be expected to be carried out at the outset. This could be the case when certain factors, for example the exchange rate or the exchange regime, are seen as so overwhelmingly obstructive to appropriate adjustment that rapid implementation of corrective measures is deemed necessary. In other cases, policy actions to improve structural elements in the economy may be phased to the implementation of necessary complementary measures. It might even be anticipated that some structural reforms--especially those requiring substantial institutional changes--might stretch over the entire program period or even beyond. The somewhat longer time horizon prescribed for use of SDA resources would encourage that priority be given to reducing administrative and institutional constraints that have been found to affect the choice and mix of policies in previous adjustment programs. The nature of such constraints may sometimes argue for a phased implementation of reform only after careful study to determine the preferred path and ultimate aims of such reform.

2. Financial programs

Annual financial programs would be incorporated into arrangements for the use of SDA resources. The aim would be to create a stable financial environment within which decision makers in both the private and public sectors can better plan productive activity. Such an environment would help ensure that economic rewards derive primarily from successful medium- to long-term investment activity, rather than from short-term speculative activity. Similarly, the signals to guide the productive reallocation of resources will be strengthened through policies conducive to financial stability.

Agreed financial programs would incorporate an array of macroeconomic instruments appropriate to the specific circumstances of each country requesting SDA resources, but including, as a minimum, fiscal and monetary measures framed within the context of the broader aims of policies sketched for the full three-year period. On the fiscal side, for example, annual programs would be expected to delineate in a more precise fashion the measures and the path by which the general aims of the comprehensive adjustment effort in the fiscal area were to be achieved. These might include tax reform, withdrawal of budgetary support for state enterprises, deficit reduction targets, and the like. Policy implementation would be monitored as in other Fund arrangements. Benchmarks would be established for major policy instruments and/or targets which would serve as a basis for semiannual reviews of performance under these financial programs. It would be expected that these benchmarks would be quantified to the fullest extent possible. The purpose of such benchmarks would be to provide clear indications to the member country of what would be expected in terms of financial policies to continue to receive semiannual disbursements under an SDA arrangement. It would be necessary to approach the definition and specification of these benchmarks, as well as the assessment of progress measured against them, in a pragmatic fashion. In addition to the financial program, where necessary, a commitment would be sought from the authorities to create or to improve the ongoing institutional capacity within the government for financial programming.

3. <u>The catalytic role of SDA resources</u>

In accord with the medium-term focus of these programs, it would be expected that the authorities would agree with the staff on external sector scenarios covering a period of about five years, with clearly identified financing requirements. In many cases it would be expected that exceptional financing might be required for an extended period before a sustainable external position compatible with acceptable growth rates and minimum restrictions could be achieved. The resources available from the SDA would provide some of the necesssary financing, but they are rather limited. Thus, use of these resources will be fully successful only if they catalyze a substantial flow of other resources on appropriate--most often, highly concessional--terms.

For the authorities and staff to design appropriate adjustment programs over an extended period, information on the financing likely to be available will be required. While recognizing that projected financing gaps will change throughout the course of a program, and that any widening of the projected gap would require either further adjustment measures or additional financing, relatively firm commitments at the start of programs would substantially enhance the policy planning process. As a minimum, projected financing gaps would have to be closed for at least the first year of the arrangement before approval of the use of SDA resources; for each of the subsequent years, financing would have to be confidently secured before approval of the second or third years of the arrangement, respectively.

Since these programs would deal with medium-term adjustment and focus on structural changes, and given the World Bank's importance as a channel of concessionary finance and its involvement in coordinating assistance from other donors in Consultative Groups, it is important for the Fund and the Bank to work together to ensure that overall assistance, including that made available through rescheduling and refinancing, is provided in a longer-term framework. The longer time frame of the arrangements for the use of SDA resources--including, as they will, policy commitments from the authorities and a commitment of resources from the SDA--should encourage donors and creditors to consider, if possible, refinancing, rescheduling, and other forms of debt relief for the full term of such arrangements. Such action on the part of donors and creditors would make a key contribution to the formulation and implementation of growth-oriented adjustment policies within a medium-term framework.

V. Some Operational Considerations

The staff has indicated in Section II of this paper the criteria that would be used to determine the presence of a protracted balance of payments problem in specific cases and has described, in a tentative fashion, the results of its first review of the situation of IDA-eligible countries in light of those criteria. At the time a member indicates an interest in being considered for use of these resources, the staff and management would review its situation in detail in light of the Board's guidance on these general criteria. Management would recommend to the Board approval of an arrangement to use SDA resources only in cases for which a protracted balance of payments problem has been identified and for which a balance of payments need in the usual sense was present. The continued commitment of resources for a period of three years would be contingent on periodic reviews of this need, generally to be carried out during the annual reviews of such arrangements. A significant improvement in a member country's external circumstances would create an expectation that the member might not request further immediate use of these resources.

1. SDA arrangements: members using Fund resources in the upper credit tranches

Some IDA-eligible countries will have arrangements for use of the Fund's general resources in place at the time a decision is taken establishing the terms and conditions for use of SDA resources. In such cases, if a request for access to SDA resources is received, the staff will be prepared to discuss that member's qualification and, if appropriate, the terms and conditions for an arrangement to use SDA resources during the first subsequent mission planned under that upper credit tranche arrangement. In cases for which that mission is a review mission, the financial program already agreed under the upper credit tranche arrangement would generally serve as the basis for that element of the SDA arrangement. The subsequent annual program for the SDA would be negotiated in concert with the next stand-by arrangement or the next annual program under an extended arrangement so as to be concurrent with those programs. In these cases, the performance criteria specified under the stand-by or extended arrangement could serve as the benchmarks for monitoring progress under the financial program component of the SDA arrangement. Upon expiration of arrangements in the upper credit tranches, separate programs for use of SDA resources would have to be agreed.

For those cases in which structural elements have been particularly featured as part of a stand-by arrangement and in which there is a history of deep involvement of the World Bank, the main elements of a program needed to qualify for use of SDA resources may already be in place. In such cases, it may be necessary only to describe in somewhat greater detail the medium-term aims of ongoing structural reforms so as to establish a basis for monitoring progress toward those aims during the period of the SDA arrangement. In many cases, however, a program for use of SDA resources would be expected to feature, somewhat more explicitly than would a program under a stand-by arrangement, certain structural and/or institutional elements that may take a longer period to see to fruition. In such cases, a complementary program describing the structural component of policies will have to be agreed with the member country, in addition to the policies agreed under the upper credit tranche arrangement.

These considerations suggest that separate arrangements would be presented to the Board for its consideration on any request to use SDA resources. This would also be appropriate since the time frame for such a program would likely extend beyond that of an operative stand-by or extended arrangement. For members using resources in the upper credit tranches, it would be expected that the Board would generally consider a request to use SDA resources at the same time that it discussed the upper credit tranche arrangement.

2. SDA arrangements: members not simultaneously using the Fund's general resources in the upper credit tranches

If an eligible country is not likely to request use of the Fund's general resources, or if such use is deemed inappropriate because of uncertainties associated with a restoration of medium-term viability in the external accounts over a time horizon appropriate to the use of such resources, or because of previous prolonged use of those resources, a separate request may be made for use of SDA resources. 1/ In such a case, the request will need to be accompanied by an agreement specific to the use of those resources. All such programs will contain policy commitments to address the critical structural problems confronting the country as well as annual financial programs which are sufficiently quantified to permit the required semiannual reviews of progress under

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1/ Among other situations, countries not in a position immediately to satisfy the data requirements for formulating and monitoring a program for use of resources in the upper credit tranches may, for some time, avail themselves of access only to SDA resources.

these programs. It would be expected, however, that the very implementation of such programs may make it feasible, in certain cases, to agree to programs appropriate to the use of the Fund's general resources at some later stage.

3. Prolonged users

In the case of some prolonged users of Fund resources, repeated adjustment programs have not eliminated payments problems. This facility would provide a new Fund-related source of financing in cases where, because of prolonged use of Fund resources, there may be little scope for further use of the Fund's general resources and would thus facilitate a continuation of an active Fund role in supporting these members' adjustment efforts. Many of these members have obligations to the Fund over the next few years that are large relative to quota and are a significant factor in their overall debt service profile. The timely settlement of obligations by these members will be facilitated by the implementation of effective adjustment programs that hold the prospect of restoring growth. This adjustment effort, in turn, needs to be supported by complementary financing on appropriate terms from sources besides the Fund. Thus, it would be hoped that arrangements for the use of SDA resources, whether or not in concert with use of the Fund's general resources, will assist members both in defining and implementing the policies necessary to establish the conditions for a revival of growth, but also in eliciting the support of donors--both financial and technical--required to support these efforts.

4. Members with overdue obligations to the Fund

For countries in arrears to the Fund, it would be particularly important not only to ensure that the arrears were eliminated, but also to structure programs and associated financing in such a way as to assure to the maximum possible extent that the member would remain current in the future. Policies as regards access to SDA resources for countries with overdue obligations to the Fund would follow the lines established for access to the Fund's general resources. While the particular circumstances of each case may differ, in general the resources potentially available under the new arrangement could play an important catalytic role. For example, as in some recent instances of members in arrears to the Fund, the staff would assist the member in formulating policies that could provide a basis for obtaining financing from other sources, which would enable the member to become current with the Fund and open the way for agreement on a program qualifying for use of the resources of the SDA. Particular importance would be attached to the member remaining current during the period of the program. These considerations would influence decisions on the use of the Fund's general resources in concert with SDA resources and would affect the conditionality applied in such cases. Any new arrears would lead to a suspension of disbursements under an arrangement and to consideration being given to the application of more stringent requirements if disbursements were to be renewed.

5. Terms and conditions of SDA funding

The Interim Committee has indicated that SDA resources should be provided on concessional terms similar to those applied to loans from the Trust Fund. In light of this guidance, and the medium-term structural nature of the programs to be supported with such resources, it is proposed that the terms and conditions of loans from the SDA be the same as those on Trust Fund loans. Thus, repayments would be in ten equal semiannual installments, beginning not later than the end of the first six months of the sixth year and completed at the end of the tenth year following disbursement. Interest would be charged at the rate of one half of one percent per annum on the outstanding balance of a loan and would be paid in semiannual installments.

VI. Fund-Bank Collaboration

The use of SDA resources will be in support of comprehensive economic programs designed to restore balance of payments viability through the promotion of structural adjustment and growth in a medium-term framework. The programs will contain macroeconomic elements, such as the reduction of internal and external imbalances through appropriate monetary, credit, fiscal, and exchange rate policies, complemented by supply-side, structural elements including, as appropriate, adequate sectoral pricing policies, rehabilitation of state enterprises, and reduced reliance on protection.

Given the clear need for greater emphasis on structural adjustment in the countries qualifying for use of SDA resources, it is important that in the design of the comprehensive adjustment programs, the Fund collaborate closely with the World Bank in line with the principles laid out by the Executive Board in its last discussion on Fund-Bank collaboration in November 1984. It will be important for development financing plans of all donors and creditors, including the World Bank, to be fully incorporated into the design of programs for structural adjustment. Greater efforts to improve the coordination of such assistance need to be encouraged. Since the Bank is likely to be one of the major creditors in the countries eligible to use SDA resources, detailed information on its loan commitments to a country will be an important element of medium-term financing scenarios.

It is proposed, in the case of members utilizing SDA resources, to further enhance and strengthen existing procedures on collaboration between the two institutions, and to experiment with different modalities of cooperation with a view to more effective utilization of the respective expertise of each institution. The main elements of such a process of increased collaboration for members utilizing SDA resources would include the following:

(a) The process of consultation with the Bank staff--including exchange of information and views--would be on a continual basis beginning at an early stage of program preparation and proceeding through the various stages of program implementation.

(b) The Bank staff would be increasingly involved in Fund staff discussions with the authorities on use of SDA resources. Participation of Bank staff in Fund staff visits and in negotiating and review missions related to the use of SDA resources would be increased and made more systematic. Possibilities would be explored for more frequent Fund staff participation in Bank SAL and economic missions to the relevant members, so that Fund staff enhance their understanding of the various structural issues and the Bank's approaches to these problems.

(c) The Bank staff's advice would be sought, in particular, in the following areas of structural and institutional reform: (1) analysis of the public sector investment program based on assessment of individual projects included in the investment program as well as of potential projects; (2) sector pricing policies; (3) reform of market structures for key products; (4) certain aspects pertinent to the development of financial systems; (5) the system of tariff and nontariff protection; (6) the rehabilitation of public enterprises; and (7) other institutional rigidities in the economy. The two staffs will also cooperate in developing medium-term assessments of financing needs and prospective sources of financing.

(d) The Fund staff would request that the Bank staff provide, at an early stage of program preparation, the Bank's views on problems and issues in the structural areas identified above. To the extent possible, the Bank staff would be asked to specify concrete policy measures and mechanisms for implementing structural reforms that should be given priority in a program to be supported with SDA resources.

(e) The Bank staff views on structural reforms would be examined with a view to their integration within the macro framework developed by the Fund staff in conjunction with the authorities, in a manner which ensures internal consistency of the various components of the program. Thus, for example, the size of the public sector investment program must be consistent with the overall fiscal, credit, and external sector targets, and pricing decisions in major sectors must be formulated in the context of appropriate exchange rate policies. Bank staff would be given an opportunity to see how their views have been taken account of in the formulation of programs to be discussed with the member country. This could be done, when appropriate, through the sharing with Bank staff of draft Fund mission briefing papers. At that stage, an effort would be made to secure agreement from Bank staff on the approach to be taken on the structural issues to be addressed in the program. In certain cases, coordination on this front may be implemented through parallel operations in which the Bank addresses the major structural issues in connection with a SAL or with a sectoral adjustment loan. It would be expected that in such cases the elements of the programs under

Bank and Fund lending operations would be fully consistent and mutually supportive. However, in cases where the Bank does not concurrently have operations of the kind described above in a country that has requested SDA resources, it would be expected that certain structural measures to which the authorities are ready to commit themselves would be incorporated into the SDA arrangement. This would be done to the fullest extent possible with the agreement of the Bank.

(f) The Fund staff may experiment with the inclusion of special sections or annexes on structural policies in the papers associated with requests for use of SDA resources. These would be prepared with the assistance of Bank staff. In any case, the Bank staff would be provided with the opportunity to comment on all draft Fund staff papers for the Board on the member's request for SDA resources so that the Fund Board will be informed of the Bank staff's views on the structural elements of the program. Moreover, consistent with the practice that has evolved in the last year or so, it is expected that a Bank staff representative would normally be invited to attend Fund Board meetings on requests for SDA resources and the periodic reviews of programs under such arrangements.

(g) Given the emphasis on structural adjustment in SDA programs, some overlap in policy focus in the program content of SDA arrangements and the Bank's lending programs is inevitable. In the design of concrete policy measures for SDA programs, in accord with current practice, the staff would take into consideration the specific conditional policy actions already included in the Bank's structural adjustment lending and sectoral lending programs. The aim will be to provide for complementarity and consistency of policy advice and program actions.

Many of these proposals would add new dimensions to collaboration between the Bank and the Fund and would emerge in concrete form only as experience was gained by the two institutions. These proposals are currently being discussed with the Bank to develop operating procedures that will make them effective.

VII. The U.S. Proposal for Joint Fund-Bank Programs

1. The main elements of the U.S. proposal

On the occasion of the Executive Board discussion on the use of resources of the Special Disbursement Account arising from the termination of the Trust Fund, the U.S. Executive Director proposed development of joint Fund-Bank programs to be supported by the use of SDA resources and funds from the World Bank (Buff 85/161, 9/13/85). Subsequently, at the Interim Committee meeting in Seoul on October 6, the U.S. Treasury Secretary called for a joint approach by the Fund and the Bank to address the difficulties of the poorest countries confronting protracted balance of payments problems. 1/ The U.S. Treasury Secretary's statement indicated that the United States would be prepared to consider a bolder approach involving more intensive IMF and World Bank collaboration to provide a framework for development of unified, comprehensive economic programs, and to catalyze additional financing in support of such programs. This approach was suggested to help ensure that the institutions provide sound, mutually consistent advice on the full range of policies that can be used to attack poverty and promote growth. It was recognized that some members may have reservations about such an approach on grounds that it could be complicated and difficult to implement. While agreeing that it would not be an easy approach to put into place, the U.S. Treasury Secretary felt that it should be explored as it offered substantial possibilities for helping the poorest countries and for strengthening the ties between the Fund and the Bank, and hoped that further consideration could be given to it in the months ahead.

The U.S. proposal envisaged the provision of resources over the period 1986-1991 aimed at the poorest (IDA-eligible) countries which are confronting protracted balance of payments problems and are willing to implement a comprehensive growth-oriented economic program. The resources would come from (a) the Fund's Special Disbursement Account (initial estimate of SDR 2.7 billion); (b) IDA VII and IDA VIII nonproject lending; and (c) IBRD net income and lending. In addition, it is envisioned to associate existing bilateral aid as well as new, additional bilateral funds with the above Fund and Bank resources. The United States was prepared to consider seeking additional bilateral funds if other donors are also prepared to make equitable contributions.

The above resources would be in support of comprehensive economic programs containing both macroeconomic and structural elements similar to the program policy content envisaged by Fund staff in the case of use of SDA resources. The macroeconomic elements would be those typically included in Fund programs plus some increased Fund emphasis on structural and institutional reforms. The structural elements would include such matters as appropriate sectoral pricing policies, growth-oriented tax reform, financial reform to mobilize domestic savings and stimulate investment, reduced government intervention in the economy, promotion of the private sector and improvement of efficiency of state enterprises, trade liberalization, and measures to make foreign direct investment more attractive.

The United States, under this proposal, envisaged that the macro and structural elements would be contained in a single program developed and negotiated by joint Fund-Bank staff teams with the concerned member. Fund and Bank staff would prepare a single, joint document for nearly simultaneous consideration and endorsement by the Fund and Bank

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1/ Statement by Secretary of Treasury, James A. Baker, III at the IMF Interim Committee meeting on Use of Trust Fund Reflows, October 6, 1985.

Boards. Each Board would approve use of the resources under its own jurisdiction. Disbursements would be phased in line with program implementation which would be spread over several years. To monitor progress in implementation, quantitative targets and qualitative objectives would be specified in the joint program, which would be evaluated in a flexible and qualitative way in the context of semiannual reviews by both Boards. Approval of the joint program and/or successful completion of the review by the two Boards would trigger disbursements of Fund and Bank resources and associated bilateral aid.

2. Some implications of the U.S. proposal

Implementation of the U.S. proposal would require decisions and the adoption of certain procedures at the Board and staff operational levels. The two Boards would need to endorse the concept of joint programs, determine the form and extent of linking of resources, and the disbursement and other mechanisms to achieve this. Within the total pool of resources, for resources under their respective jurisdiction, each Board would need to decide upon the amount, purposes, time period, and criteria for eligibility and use of the relevant resources, and the potential access of individual members. The phased disbursements of resources from the two institutions presumably would be linked in some fashion specified in the joint program document. There would need to be mutual agreement between the two institutions on a common list of potential users based on similar and mutually consistent criteria. Consideration of joint programs and reviews of the implementation of these programs by the two Boards would need to be scheduled simultaneously or at least very closely together. Procedures would need to be instituted to deal with the eventuality that the joint program is endorsed by one Board but not by the other. Joint programs imply that collaboration must also increase between Bank and Fund Executive Directors for purposes of harmonized and consistent views.

Decisions on disbursements of bilateral aid associated with the joint programs would be a matter for individual donors rather than for the Bank or the Fund. However, since the joint program would be formulated on the basis of an assessment of balance of payments needs and the prospective availability of financing, it would be expected that donors would make every effort to live up to commitments in order to avoid the emergence of unfilled financing gaps which could jeopardize program implementation. The Boards of the Bank and the Fund might want to consider whether other mechanisms to assure disbursement of bilateral assistance in concert with resources committed by the Bank and the Fund may be desirable.

At the staff and management levels, there would need to be a close association between the two institutions at each stage of program formulation and follow-up. While this principle is also envisaged by the staff in the formulation of SDA programs, the U.S. proposal on joint programs would go considerably further and would imply a significant extension of present procedures and practices on collaboration. It would require the two staffs to share responsibility on the determination of the size, composition, and timing of joint missions, and of the selection of the mission chief(s). It would presumably also entail preparation of joint briefs and joint debriefs to Fund and Bank management, the joint preparation and negotiation of the letter of intent with the authorities, and the joint drafting of the staff report for the two Boards. To make such arrangements feasible, the authorities would need to be willing to share highly confidential information with both staffs and accept wider circulation and discussion of the program documents.

VIII. Subsequent Procedures

On the basis of guidance provided by the Board on the major elements of the proposals contained in this paper, the staff would proceed to draft the necessary decision. It would be expected that such a draft, together with a paper elaborating details of the facility's operations, could be put before the Board for its consideration by mid-March 1986. Adoption of a decision at that time would permit operation of the facility to begin shortly thereafter.

Trust Fund: Termination and Transfer of Resources to Special Disbursement Account

1. Having conducted the review specified in Section II, paragraph 4(d) of the Instrument to establish the Trust Fund attached to Decision No. 5069-(76/72), of May 5, 1976 (hereinafter called the Trust Instrument), the Fund, as Trustee, decides with effect from the date disbursements under loans from the Trust Fund are completed, that the payment terms of such loans from the Trust Fund will not be changed, provided, however, that if the Trustee finds that repayment of an installment on the due date would result in serious hardship for the borrower the Trustee may reschedule the repayment to a date not later than two years after the date such repayment was originally due.

2. (a) The Fund, as Trustee, decides that the Trust Fund shall be terminated as of April 30, 1981 or the date on which disbursements under Trust Fund loans are finally completed, whichever is the later. After that date, the activities of the Trust shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

(b) The resources of the Trust Fund held on the termination date or subsequently received by the Trustee, except those resources still being held for distribution to members or required to satisfy the liabilities specified in Section V, Paragraph 2 of the Trust Instrument, shall be transferred, as expeditiously as possible, to the special disbursement account in accordance with Section V, Paragraph 2 of the Trust Instrument.

(c) Nothing in this paragraph 2 shall limit the authority of the Trustee, either before or during the winding up of the Trust Fund, to reschedule loan repayments in cases of serious hardship as provided in paragraph 1 above.

3. (a) From the resources received in the special disbursement account of the Fund pursuant to paragraph 2(b) above, the Fund shall make available an amount equivalent to SDR 750 million for use in the Supplementary Financing Facility Subsidy Account (hereinafter called the Subsidy Account). Such amount shall be transferred to the Subsidy Account as provided in Section 4 of the Instrument establishing the Subsidy Account.

(b) Of the resources received in the Special Disbursement Account as a consequence of the termination of the Trust Fund which are not used for the Subsidy Account as provided in (a) above, SDR 1,500 million shall be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Instrument. The remainder shall be used to provide assistance to low-income developing members in accordance with the second sentence of subsection 12(f)(ii) of Article V of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is taken by that date, the remainder referred to in the preceding sentence shall be used on the same terms as the SDR 1,500 million referred to in the first sentence of this subparagraph.

Decision No. 6704-(80/185)TR
December 17, 1980

For MC information

RECORD

E-1227

URGENT

FACSIMILE TRANSMITTAL FORM

EXC/MC86-05

INTBAFRAD PARIS Date: January 28, 1986

NUMBER OF MESSAGE: ..167

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TO: Mr. A.W. Clausen, President

FROM: Moeen A. Qureshi, SVPFI

SUBJECT: IDA Eight Replenishment

Please find attached the Chairman's summary note on the meeting of IDA Deputies (Paris, January 27-28).

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January 28, 1986

IDA EIGHTH REPLENISHMENT

Meeting of Deputies

Paris, Monday and Tuesday, January 27 and 28, 1986

CHAIRMAN'S SUMMARY NOTE

1. Negotiations for the Eighth Replenishment of the International Development Association (IDA8) were launched with the meeting of IDA Deputies in Paris on January 27-28 under the chairmanship of Mr. Moeen Qureshi. In initiating the negotiations, Deputies reaffirmed their strong support for the Association which they viewed as a key instrument of international co-operation and development. Against the background of the difficult economic and financial circumstances of the very poorest IDA borrowers, especially those in Africa, Deputies underlined IDA's pivotal role as a source of concessional financing. They emphasized, therefore, that it was of critical importance to provide a replenishment adequate to enable IDA to continue to play its special role. Deputies also stressed that they wished to complete the negotiations in an expeditious manner.

2. There was broad agreement that the key issues to be addressed in this first negotiating session were a negotiating range for the replenishment, the terms of IDA lending, and allocations among country groups. Deputies were, furthermore, of the view that these three issues were closely linked and should accordingly be dealt with as a package.

3. Deputies agreed that every effort should be made to achieve a replenishment of $12 billion. Many believed this should be a minimum target since it would merely maintain, in real terms, the value of resources currently available to the Association through IDA7 and the African Facility; they would therefore have preferred a higher figure. For others, $12 billion represented the maximum feasible. Against this background a large majority were prepared to accept that negotiations should begin within a negotiating range of $10.5 to $12.5 billion. Moreover, they emphasized that the lower end of this range did not constitute an accceptable figure and therefore they strongly urged that all donors coalesce around the figure of $12 billion or more. The U.S. Deputy said that his current reference point was a range of $9 to $12 billion, but provided that certain adjustments in terms and other policies mentioned below could be achieved, he too would work to secure an outcome within the range of $10.5 to $12.5 billion. It was also pointed out by Deputies that other issues such as burden sharing and the applicable exchange rates would need to be settled before the size of the replenishment would be finally decided.

4. There was agreement among Deputies that the character of IDA as an institution predominantly financing specific investments should be preserved. There was, however, general recognition that in many of the recipient countries there was at the present time an urgent need to strengthen adjustment support lending so as to improve the policy environment for investment. In this context, in the expectation of a satisfactory level of replenishment, Deputies discussed the implications for IDA8 of proposals made subsequent to the Interim Committee discussions

in Seoul for the use of IMF Trust Fund reflows, including the proposal of the United States. Deputies fully recognized that it was not within their jurisdiction to decide on these proposals or make recommendations on them. This was rather the task of the Boards of the Fund and the Bank. Provided these proposals were adopted, Deputies were of the view that any increment above $10.5 billion should be primarily designated for support of adjustment programs -- especially in Sub-Saharan Africa -- in conjunction with the Trust Fund reflows to the extent feasible. With respect to the $10.5 billion itself, Deputies agreed that the share devoted to the support of such programs should not be less than that in IDA7 plus the African Facility, and could be used in a similar manner for eligible countries under the proposal as it might be adopted by the Boards.

5. Deputies expressed a willingness to consider modest changes in IDA's lending terms if there was a real prospect that the Association's resources could be significantly increased as a result. Many stressed that the extent to which adjustments could be made depended on the eventual size of the replenishment. Provided that the replenishment is in the range of $10.5 to $12.5 billion, most Deputies could accept a reduction in the maturities of IDA credits from 50 to 40 years. If the replenishment is in the upper end of the range, many Deputies could consider a reduction in maturities to 35 years or a reduction in grace periods from 10 to 8 years, while others felt that such an adjustment would be inappropriate for IDA-only countries. Most Deputies were opposed to the introduction of interest rates or increases in the service charge. However, many were prepared to consider an approach for adjusting the terms of IDA credits after a specified period to reflect changes in individual country cirumstances.

6. On the question of allocations, Deputies agreed that priority should be given to Sub-Saharan Africa and that these countries would receive a very large part of the amount above $10.5 billion. Deputies also agreed that the amounts to be allocated to the major blend countries should not be less than current nominal levels. The scope for increased lending to these countries would be reviewed within the context of the specific size of the replenishment that is agreed.

7. It was agreed that the Deputies would meet again on April 7-8, 1986, in Washington, D.C. when the issues of size and burden sharing will be taken up.

Record Removal Notice

File Title	Barcode No.
Managing Committee official Files: Issues Papers - Office of the President (EXC) - Issues papers 86-01	1775485

Document Date	Document Type
January 22, 1986	Memorandum

Correspondents / Participants
To: Mr. Roy Southworth, Secretary, Managing Committee
From: C.F. Amerasinghe, Executive Secretary, WBT

Subject / Title
Periodic Report on the Status of the Administrative Tribunal's Work

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	May 22, 2017

THE WORLD BANK ADMINISTRATIVE

For MC information

R E C O R D

E-1227

Office Memorandum

EXC/MC86-04

To: Mr. Roy Southworth, Secretary, Managing Committee

Date: January 22, 1986

From: C.F. Amerasinghe, Executive Secretary, WBT

Subject: Periodic Report on the Status of the Administrative Tribunal's Work

As has been done previously and following my last report dated October 9, 1985, I am sending you for distribution to the Managing Committee the attached report on the Status of the Administrative Tribunal's work.

Enclosure

THE WORLD BANK ADMINISTRATIVE TRIBUNAL

1818 H Street, N.W.
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FOR THE MANAGING COMMITTEE

Report on the Status of the Administrative Tribunal's Work

1. Since my last report dated October 19, 1985 to the Managing Committee the Tribunal has met in Washington from October 21 to October 25, 1985. It decided Broemser and had oral hearings which were public in Von Stauffenberg, Ganuelas and Leach. In Broemser the Tribunal found a procedural irregularity in the termination of service for which it ordered the respondent (the Bank) to pay the applicant compensation. The decision to terminate the applicant's service was allowed to stand.

2. In the oral hearings in the Von Stauffenberg et al. cases the Tribunal heard counsel for the applicants and counsel for the respondents. Each party had two opportunities to speak. The cases concern the general structural salary increase for 1984.

3. The next session will be held in late spring. It will be for 7 working days, as at present planned. It is hoped to be able to decide Von Stauffenberg, Ganuelas, Leach, Kirk and Gyamfi at this session.

4. There is one more case in the docket, Thompson. A few more are expected to be filed. The Tribunal is expecting more cases to be filed later in the year as a result of the Bank's grading exercise.

5. The work on confidential papers goes on in the Secretariat. Apart from these papers have been completed on "Classification and Grading" and "Salary Increases." These are available to those interested.

6. The work on the "Index of Decisions," the "Index of the WBAT" and the "Main Points" has been completed. They should be ready for distribution in two to four weeks.

7. The Executive Secretary has completed work on 18 chapters of the comparative study on international administrative law, four more than at the time of the last report. About 60% of the work on the comprehensive study has been completed.

8. The 1985 Reports of the WBAT have been published in one volume and are available to the public.

C.F. Amerasinghe
Executive Secretary
World Bank Administrative Tribunal

Washington, D.C.
January 22, 1986

For MC information
R E C O R D

E-1227

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

EXC/MC86-03

A. W. CLAUSEN
President

January 17, 1986

The Honorable James A. Baker III
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Jim,

Thank you for your letter of January 13, setting out what the United States considers to be necessary elements for the IDA8 replenishment. In responding to it, let me express at the outset our appreciation for the constructive and forthright way in which the United States is approaching these negotiations. While it may not in the end prove possible to achieve all of your objectives vis a vis the other donors, I know that your efforts over the past year -- particularly in Seoul -- to reassert US leadership in international finance and development have created a positive climate for the IDA8 negotiations, with renewed goodwill on all sides.

We believe that much of your agenda of policy changes will prove acceptable to the other donors -- particularly the emphasis on Africa, and the support for policy reform. While specific programs will need to be tailored to individual country circumstances, there is growing support for these general objectives. Indeed, the Joint Program of Action for Subsaharan Africa embodies similar objectives, and the IDA Deputies generally endorsed greater emphasis on Africa and performance-related lending in their meeting at Seoul.

What is less likely to be accepted by other donors -- and particularly recipients -- are major changes in IDA's repayment terms or further reductions in the allocation to India and China. The Seoul meeting showed a willingness to reconsider terms, but there was strong opposition on the part of many donors to any significant reduction in the concessionality of IDA credits. Moreover, donors are unlikely to agree to a negotiating range with a minimum that is lower than the resources we now have -- i.e. $10.4 billion which represents the sum of IDA7 plus the African Facility. Most importantly, it is our sense that the donors are likely to approach the three major issues that are to be discussed in Paris -- negotiating range, terms and allocations -- as elements of an overall package. Accordingly, we believe it would be a mistake for the United States to seek a negotiating range for IDA8 with a minimum as low as $9 billion. We are convinced that a minimum of $10.5 billion (or thereabouts)is necessary to make any significant progress on subjects of lending terms and country group allocations. The figure of $9 billion will be seen as a reduction in IDA's current level of funding, and may be interpreted as a sign that the United States is not serious about trying to marshall additional resources to supplement the IMF Trust Fund reflows. In my view, it is vitally important for the United States to signal in the Paris meeting its willingness to at least sustain IDA's current level of operations and to consider additional funding in conjunction with your Trust Fund proposal. I am confident that this will elicit a very positive response from the other donors in terms of increasing the emphasis in IDA8 on policy-oriented lending and the private sector.

With regard to IBRD's programs, I am in agreement with the points you make in your letter, and especially with the objectives you have in mind for the Bank. You are aware, of course, that there is some difference of view on the part of some of the Bank's shareholders on precisely how these objectives should be pursued in particular cases. We are moving to bring specific country programs to the Board in the near future and this will give the United States the opportunity to review the Bank's policy approaches and procedures in the context of specific examples.

Again, let me thank you for your constructive approach to the IDA8 negotiations and your continuing support for the Bank and its programs.

Warm regards.

Sincerely,

A. W. Clausen
President

- For MC Consideration
RECORD

Jan. 16/86 -
E-1227

THE SECRETARY OF THE TREASURY
WASHINGTON

EXC/MC86-02

January 13, 1986

Dear Tom:

I am glad we had the opportunity to discuss the upcoming replenishment for the International Development Association (IDA VIII). As you suggested in that meeting, I have outlined below what we consider to be the necessary elements of the replenishment.

I want to emphasize again that the policy changes we are seeking are critical to the character of U.S. participation in the replenishment. Gramm-Rudman totally changes our budgetary environment. Competition for resources over the life of IDA VIII will be stronger than ever and it will be extremely difficult to justify funding IDA even at current levels in the absence of sharp policy changes in the program.

The specific policy changes we are seeking are:

-- lending terms that move toward reducing the grant element, i.e., a reduction of maturity and grace periods and an increase in interest charges;

-- a lending program that emphasizes and supports directly the private sector;

-- a larger proportion of the total lending program dedicated to policy based lending -- particularly in Sub-Saharan Africa; and

-- a larger IDA share for Sub-Saharan Africa.

With these policy changes, I believe a replenishment in the $9 to $12 billion range may be feasible.

In addition, for any replenishment, we would insist that the funds in excess of $9 billion be earmarked for lending to Sub-Saharan Africa in conjunction with lending from the IMF Trust Fund. We also would insist that the proportion of the $9 billion base of IDA VIII that corresponds to the portion of the IDA VII replenishment dedicated to policy-based lending in Sub-Saharan Africa be earmarked through the same mechanism for Africa. The IMF Trust Fund, the IDA policy-based lending and, hopefully, the Special Facility for Sub-Saharan Africa have precisely the same objective, and logically should function in a cooperative program for these countries.

The stronger focus on Sub-Saharan Africa and close cooperation with the Fund that are embodied in this approach along with the other suggested changes would permit the U.S. to enter into IDA VIII replenishment discussions with a much stronger position domestically. A replenishment in the range of $9 billion to $12 billion would be much more likely to be achieved as a result.

As you are aware, the policy changes we are seeking in IDA and more generally the direction we wish IDA to follow are a reflection of the changes we are seeking in the World Bank. They are not mutually exclusive or separable; and they are consistent with our overall policy toward the IFIs.

With regard to the Bank we are seeking:

-- a greater focus on the 15 debtor countries;

-- a major expansion of structural and sector adjustment lending where there is a demand from countries;

-- more of the Bank's lending program should be tranched in order to monitor performance better;

-- a relaxation of the portfolio concentration guidelines for selected debtor countries;

-- an improvement in the pace of internal procedures for processing loans without sacrificing loan quality;

-- increased and continued coordination and cooperation with the IMF and with regional MDBs;

-- a stronger push by the Bank to get major debtor countries to move toward market oriented economic policies, i.e. fair but strong conditionality which will not be compromised;

-- suspension of lending for non-performance of lending conditions; and

-- strengthened Bank staff for handling this type of lending.

We recognize some of these changes will not be easy; but they are essential. We also understand that some are in the process of being made; but the pace of those changes appears to be extremely measured. A failure to act much more quickly could very well jeopardize the program that we have all agreed is needed.

Beyond these immediate concerns we need to begin thinking about and developing additional concepts to buttress and extend the new debt initiative. For example, more imaginative use of devices or programs such as co-financing, integration of the IFC into the program, Bank lending to private institutions and deposit-taking by the Bank are ideas we may wish to examine.

In closing let me again emphasize the critical need for the Bank to make the changes outlined above as quickly as possible. I hope that you share this view and will continue to press for these changes.

Sincerely,

Jim

James A. Baker, III

The Honorable A.W. Clausen
President
International Bank for
Reconstruction and Development
Washington, D.C. 20433

For MC Consideration Jan. 8/86
R E C O R D E-1227

EXC/MC86-01

An Approach to Assistance to Low Income Countries with Protracted Balance of Payments Problems

The United States has proposed a program of expanded assistance to address the economic problems of the poorest countries with protracted balance of payments problems to help them to achieve sustainable economic growth. The proposal is based on a convergence of views that:

-- growth is indispensable to the process of economic development, to political stability, and to resolution of current economic and financial problems;

-- comprehensive economic programs are a necessary condition for sustainable economic growth in many developing countries;

-- the protracted economic problems facing the poorest developing countries, especially those in Sub-Saharan Africa, require more effective financing; and

-- strengthened cooperation between the International Monetary Fund and the World Bank is required to support these efforts.

These themes have been embodied in the communiques of the last three Economic Summits and in recommendations of the G-10 urging closer Bank/Fund cooperation to support economic policy changes.

The proposal also reflects growing recognition that little economic progress has been made by the poorest countries in dealing with their economic problems. Despite increased financial flows to Sub-Saharan Africa through the 1970s and adoption of adjustment measures by many of them, economic performance declined in many cases. While important progress has been achieved in strengthening Fund/Bank cooperation in recent years, there is scope for further steps to enhance cooperation between the institutions. Growth prospects for the remainder of the 1980s are poor and, in the absence of a renewed efforts by the countries and their creditors, it is likely that net financial flows to the region will decline over the period. Significant economic reform efforts must be made by these countries, requiring the support of the financial institutions and donor countries. Only decisive action can achieve successful policy change and set the stage for sustained growth.

U.S. Approach

The proposed plan of action is intended to ensure that IMF, World Bank, and bilateral donor assistance provide the greatest possible impetus to sound economic policies, structural reform and renewed growth in the poorest countries. The key to this proposal is coordinated programs by the Fund and Bank, focused on the poorest (IDA-eligible) countries, many of which are in Sub-Saharan Africa, which have protracted balance of payments problems and are willing to undertake comprehensive macro-economic and structural programs.

More intensive IMF and World Bank collaboration could help provide a comprehensive economic framework for each country's efforts and could catalyze additional financing on concessional terms in support of these efforts. With regard to exact modalities for achieving enhanced Bank/Fund cooperation, the United States recognizes that there may be a number of workable approaches and is open to suggestions, consistent with the basic concepts and objectives of this approach.

International Consultations

In Seoul, there was considerable support expressed for the goals of this plan, in the context of a discussion of the use of Trust Fund reflows, including both greater efforts to support comprehensive economic programs in the poorest countries and stronger Bank/Fund coordination. Concrete steps toward implementation of enhanced economic efforts consistent with the proposed approach were taken, including Interim Committee endorsement of use of Trust Fund reflows for the poorest countries with protracted balance of payments problems and willing to adopt comprehensive economic programs. The Interim Committee also endorsed close collaboration between the Fund and the World Bank, but did not elaborate measures to achieve more formal cooperation between the two institutions.

In the months since the Seoul meetings, the U.S. Government has carried out a series of consultations on this approach in order to seek the views of others on the best means to accomplish it. We have spoken with a number of donor governments, African governments, and -- on an informal basis -- with members of the management and Executive Boards of the IMF and the World Bank. These discussions have indicated continued strong support for the basic goals of the plan. At recent international meetings, including the High Level Meeting of the Development Assistance Committee and the OECD Executive Committee, member countries reiterated their basic support for these goals.

At the same time, concerns have been expressed about the exact modalities of the program in the Bank and Fund. The concerns that have been expressed fall into three categories: reluctance to see formal links established between the programming of the two institutions; uncertainty over the sources and level of resources to be provided by the World Bank, especially the role of IDA VIII; and linkage of bilateral aid with this program.

-- Some have expressed concern over possible "blurring" of the roles of the Fund and Bank by merging their policy advice and financing efforts, and have been unprepared to commit bilateral aid funds for this purpose, preferring instead that additional aid for the poorest countries come from IDA VIII.

-- The need to avoid "cross-conditionality" (i.e. mutual vetoes by the two institutions) between the Bank and Fund was also of concern.

-- The importance of retaining IMF and World Bank flexibility in responding to the needs of their members was also stressed.

Comprehensive Policy Framework

As a result of our consultations thus far, we have adapted the details of the basic proposal to address the issues that have been raised. In particular, to ensure that the distinctive roles of the two institutions are maintained, we would endorse an approach in which the focus of action by Bank, Fund, and host country would be development of a comprehensive "policy framework" within which the two institutions would develop policy-based programs.

Staff of the Fund and Bank would work with the country to develop a policy framework involving consistent, supportive macroeconomic and structural policy objectives and determine areas for priority attention. Fund and Bank staff would also reach general agreement on financing needs and possible sources of financing to support the comprehensive program. To the extent possible, development of the policy framework would coincide with IMF Article IV consultations and preparation of World Bank country economic memoranda. The framework paper would go beyond these documents in that it would be more explicit in defining policy objectives, timetables and areas for priority attention, and it would be the basis for agreement on these issues and priorities between the Bank and Fund.

The policy framework agreement would be broad enough to encompass recommendations in such areas as the current account position; fiscal policy; relative prices; money and credit expansion; exchange rate reform; trade, foreign direct investment and exchange stabilization; privatization of parastatal organizations; deregulation of domestic markets; sectoral policies; investment programs; tax policies; expenditure controls; financial market reforms; labor market reforms; and other areas, as appropriate.

The framework would be reviewed and approved by both the IMF and World Bank Executive Boards at roughly the same time as a basis for policy-based lending to the country. Once it was agreed, each institution would negotiate its own policy-based lending programs, consistent with the overall framework, but within the procedural and policy guidelines of its own Board.

The Boards would ensure that specific quantified objectives and policy goals set by the institutions in their individual programs were consistent and supportive. Each Board would monitor performance and determine subsequent drawings for its own lending program.

Efforts would be made to ensure that the timing of program approval, disbursement and review would be compatible between the two institutions, while not being rigidly linked. This would provide the confidence necessary for each institution to proceed with its own program on the basis of consistent policy advice and similar financing assumptions. Successful performance under one institution's program would not be a condition for successive drawings under the other institution's parallel program, but each institution would take into account progress being made in the other institution. Such progress would, by definition, be important to the overall attainment of growth and payments viability.

The policy framework would normally be reviewed on an annual basis by the Boards, and revised as appropriate, in the same coordinated fashion as it was developed. The comprehensive programs implemented under the framework would generally be of two years duration, with semi-annual reviews and drawings based on performance against the quantified and other program objectives incorporated into the reviews. Successful performers would enjoy possible access to follow-on programs, providing a medium-term adjustment path. Decisions on follow-on programs and the scope of such programs would take into account the performance under the preceding programs.

Eligibility would be based on the guidelines for use of Trust Fund reflows endorsed by the Interim Committee in Seoul. Resources available over the 1986-91 period would include the $2.7 billion of IMF Trust Fund reflows, and a roughly equivalent amount from World Bank and bilateral sources. The World Bank contribution would be drawn largely from IDA non-project lending under IDA VII and VIII, annual transfers of perhaps $100 million of IBRD net income, and modest IBRD lending to countries meeting IBRD creditworthiness criteria. The United States would support dedicating a portion of IDA VIII funds for programming under the policy framework plan.

Bilateral resources would also be mobilized to support programs under the comprehensive policy framework. The United States has expressed willingness to seek to provide bilateral resources for this purpose if others are willing to make equitable contributions. These funds might be pooled in a special fund or account at the World Bank or, if such an arrangement is not possible, provided directly to a participating country by the donor. Bilateral funds would augment and support Fund and Bank programs negotiated under the policy framework. If provided directly to the countries by donors, they could be made available in coordination with those of the Fund and Bank in a manner that best supports the goals of the policy framework, possibly using the Consultative Groups set up for most of the poorest countries.

Response to Key Concerns

We believe that these adaptations of the basic approach address the major concerns raised during our consultations.

1) The plan preserves the distinct roles of, and avoids cross-conditionality between, the IMF and World Bank, while maintaining the basic concept of enhanced coordination between the Fund and Bank. Formal joint action would normally be limited to the design, approval and review of an overall policy framework. It would not change the fundamental roles or relationships between Fund and Bank, or between the institutions and their clients. Design and implementation of Fund and Bank financing programs would be left to the individual institutions.

2) IDA would be the focus of World Bank participation in the coordinated approach, and resources from IDA VIII would play a major role in it. Most of the resources provided by the World Bank would come through IDA, starting with non-project funds under IDA VII and possibly including funds dedicated for this purpose within IDA VIII. IBRD net income transfers and modest additional IBRD lending would be programmed in close coordination with these IDA funds.

3) The plan could attract additional concessional resources for the poorest countries, especially additional fast disbursing, non-project aid. The amount of additionality depends importantly on the willingness of donors to dedicate a portion of IDA VIII and additional bilateral resources to the program. Furthermore, the program would be premised on a greater portion of multilateral and bilateral assistance being provided on fast disbursing terms to support policy reform.

Next Steps

The IMF Board will be deciding the guidelines for use of Trust Fund resources on January 22, 1986. The Interim Committee emphasized the importance of close Fund/Bank cooperation but did not specify actions to achieve it. We believe this proposal provides a concrete means of achieving such coordination. We urge Executive Directors to support this approach in discussions in the Executive Board.

In the World Bank, there have been only informal discussions of the Bank/Fund plan, and it will be necessary to bring it to the Board very soon for formal consideration. We similarly urge support of the Bank Executive Directors for the policy framework concept in future Board discussions and in the context of IDA VIII negotiations.

January 3, 1986